



BAY AREA  
AIR QUALITY  
MANAGEMENT  
DISTRICT

April 10, 2018

Paul Cort  
EARTHJUSTICE  
50 California Street  
San Francisco, CA 94111

Subject: EARTHJUSTICE Letter of December 8, 2017 Regarding the West Oakland Title VI Administrative Complaint and Subsequent Meeting on February 7, 2018.

Dear Mr. Cort:

Bay Area Air Quality Management District (Air District) staff has reviewed the list of recommended strategies that EARTHJUSTICE has developed to reduce toxic air contaminants (TAC) and particulate matter (PM) emissions in the West Oakland community on behalf of the West Oakland Environmental Indicators Project (WOEIP). As we discussed at our meeting on February 7, 2018, Air District staff overall supports the recommended strategies with a few minor modifications to some of the recommendations. We have provided our recommended modifications, in **bold** and *italic* text, in the list of strategies EARTHJUSTICE provided in the attachment to this letter.

The Draft Environmental Impact Report (DEIR) for the Oakland Army Base (OAB) identified significant air quality impacts associated with the proposed development of the property. In approving the OAB project, both the City of Oakland and Port of Oakland adopted a comprehensive list of mitigation measures that would be required of new development to reduce the air quality impacts from this project in the West Oakland community. As you are aware, the West Oakland community is the most disproportionality impacted community for TACs and PM in the Bay Area, and the location of substantial efforts by the Air District to reduce public exposure to these pollutants. Air District staff believes that all the recommended strategies you have identified are technically feasible to implement and are consistent with the requirements of the Mitigation Monitoring and Reporting Program for the OAB DEIR and the requirements listed in the Lease Disposition and Development Agreement for the City's portion of the OAB.

Air District staff is available to discuss any of our suggested edits to the list of recommended strategies and we look forward to working with EARTHJUSTICE, WOEIP, the City of Oakland and the Port of Oakland in the implementation of these and other emission reduction strategies. The Air District has available grant funding available to assist with the projects proposed in this letter and is happy to work with the City, Port and local community to determine how these funds could

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EPA-HQ-2019-000105 000002 2019-03-13

be applied to reduce emissions and health risk in West Oakland. If you have any questions please contact Dave Vintze, Air Quality Planning Manager, at 415-749-5179, or at [dvintze@baaqmd.gov](mailto:dvintze@baaqmd.gov).

Sincerely,



Damian Breen

Deputy Air Pollution Control Officer



Gregory Nudd

Deputy Air Pollution Control Officer

cc: BAAQMD Director Pauline Russo Cutter  
BAAQMD Director Scott Haggerty  
BAAQMD Director Rebecca Kaplan  
BAAQMD Director Nate Miley  
Libby Schaff, Mayor, City of Oakland  
Cynthia Marvin, California Air Resources Board  
Ryan Fitzpatrick, U.S. DOT  
Ericka Farrell, U.S. EPA  
Darin Ranelletti, City of Oakland  
Chris Lytle, Executive Director, Port of Oakland



## ATTACHMENT

(The list of strategies outlined below were developed by EARTHJUSTICE and contained in a letter to federal agencies to resolve the Title VI Administrative Complaint between WOEIP and the City of Oakland and Port of Oakland. Air District staff were asked by WOEIP and EARTHJUSTICE to review the list of strategies and assesses their feasibility of implementation and effectiveness in reducing air pollution from future development at the Oakland Army Base on the West Oakland Community. Air District staff responses are immediately below each numbered strategy in "bold" and "italic" text.)

### **Actions for Addressing West Oakland Civil Rights Complaint**

#### **The Port of Oakland Must Move to Zero-Emissions**

State and local air agencies in California have acknowledged the need to move our freight system to zero-emissions in order to reduce air toxics, achieve air quality standards, and meet our greenhouse reduction targets. The Ports of Los Angeles and Long Beach, led by the mayors of those cities, have embraced zero-emission goals as part of their long-term Clean Air Action Plan. Yet the City and Port of Oakland continue to focus on emission reduction targets that are based on outdated health risk assessment data and that are no longer adequate to address the health crisis in the surrounding community. A true vision for addressing the legacy of the Port's pollution must start with the goal of zero emissions from all Port equipment and the mobile sources that serve the Port. The following demands are based on commitments, agency recommendations, and projects underway at other ports, and technologies already available

- (1) Commit to replace all cargo handling equipment with zero-emissions equipment by 2030.

*Based on recent regulatory recommendations by the ARB, existing zero emissions yard hostler, forklift and crane technology, the Air District believes that current technologies exist to meet this requirement by 2030.*

- (2) Commit to allow only zero-emission drayage trucks to service the port by 2035.

*This requirement should be phased in with 20% by 2025, 60% by 2030 and 100% by 2033*

- (3) Prepare a Clean Air Action Plan with interim targets for achieving these 2030 and 2035 commitments.

*Mitigation measures for the OAB require to City and Port to develop, fund and "continually update" emission reduction plans, which to date have not been prepared.*

- (4) Implement a 100 zero-emission truck commercialization pilot program by 2023.



*Air District grants are available to partially fund this recommendation and the technologies exist to make this a robust demonstration.*

- (5) Require all ships to use shore power or an at-berth emission reduction technology by 2023.

*The California Air Resources Boards at berth regulation currently requires that 70% of emissions from engines on cargo container and ocean liner at berth be reduced and that by 2020, 80% of emissions from those engines be reduced. The Air District believes that this regulation should be extended to cover bulk, tanker and rolloff/roll-on vessels at all California ports.*

*However, due to operational constraints on some older vessels it may not be possible for them to use shore power. Use of "bonnets" or other capture technology may allow for capture of emissions from some of these vessels. The Air District would recommend that this language be modified to state: "to the maximum extent possible" all emissions from vessels at berth be reduced to zero by 2030.*

- (6) Adopt indirect source emission caps by 2020 to encourage efficiency and emission reductions within the port.

*Indirect source emission caps should be included in the Clean Air Action Plan identified in recommendation # 3 above. Projects above the emission caps should pay into a local emission offset fund.*

- (7) Work with the relevant utilities to develop electrical infrastructure plans to support port electrification. Such plans should maximize the use distributed renewable and storage resources at the Port. Initial plans should be presented for Board consideration in 2018.

*Air District staff recommends that electrical infrastructure plans be incorporated into the Clean Air Action Plan identified in recommendation # 3 above.*

- (8) Require electrification of locomotives that do not leave port facilities and require emission capture technologies for other locomotives while at port facilities. Adopt strategies for encouraging turnover of all Tier 3 and older locomotives by 2020.

*While electrification of captive locomotives, such as switchers at railyards would offer the maximum health protection to the West Oakland community, such a project would likely take multiple years and require significant investment to implement. In the interim, Air District staff believes that significant emissions reductions and health benefits can be achieved by the use of Tier 4 and California Air Resources Board proposed Tier 5 locomotives in switcher and rail service at the current Oakland railyard.*

*Additionally, while capture systems can reduce emissions from locomotives, the Air District has found, through its work in support of the pilot emissions capture system deployed at the Roseville railyard, that:*



- *Emissions capture systems are difficult to move across multiple railyards tracks; and*
- *They are difficult to position correctly in order to have significant emissions benefits.*

*Therefore, the Air District would only recommend such devices in a very limited number of applications - where locomotives stop in the same exact spot on each of their trips or where the emissions capture device could be relocated to capture 100% of the emissions from the locomotives stack.*

(9) Provide space for truck supportive services within Port properties.

*Consistent with OAB mitigation measures to reduce emissions from trucks in the West Oakland Community.*

(10) Set aside land for green infrastructure and truck charging stations. Provide regular reporting on progress and compliance with emission reduction requirements.

*Consistent with OAB mitigation measures to reduce emissions from trucks*

(11) Continue ARB spot inspection program by collecting and reporting information on trucks with excess smoke, improper emissions control labels, evidence of tampering, and noncompliance with regulations requiring soot filters on trucks and transport refrigeration units.

*Consistent with OAB mitigation measures to reduce emissions from trucks.*

(12) Report or deny access to any truck not in compliance with ARB regulations.

*Consistent with OAB mitigation measures to reduce emissions from trucks.*

### **The City and Port Must Address Port Impacts on the Community**

The City must take steps to address the harmful environmental legacy that has been created in the surrounding communities by the Port. In addition, going forward, the City must ensure that Port development and Community development are coordinated to avoid spillover effects on the community and take advantage of opportunities that can be achieved by redevelopment at the Port. The following demands are all within the authority of the City to address:

(1) Conduct new Environmental Impact Review for current proposed development of Oakland Army Base. Include alternatives that support moving freight activities and services out of the surrounding communities onto Port and OAB properties.

*Air District staff recommends that if the City and Port cannot meet the mitigation*



*requirements that they agreed to when they approved the OAB project and certified the FEIR, new environmental review should be prepared for all new development in the OAB.*

*Environmental conditions have changed substantially since the previous environmental analysis was prepared in 2012. There are now more stringent particulate matter and ozone national ambient air quality standards that will be more difficult to attain with build out of the OAB as currently envisioned. In addition, new State planning requirements to improve local community health were approved through AB 617, which includes the West Oakland Community that will be adversely impacted with development at the OAB.*

(2) End practice of piecemealing mitigation planning between construction and operation air quality reviews.

*Air District staff recommends that the OAB mitigation measures requiring development of emission reduction plans and the funding of strategies to reduce truck emissions should be completed in a public process before any additional development plans or tenant improvements are approved.*

(3) Commit to renewable energy projects to mitigate impacts and to facilitate transition of trucks and other equipment to zero-emission technologies.

*Consistent with OAB mitigation measures to reduce emissions from trucks.*

(4) Prepare new traffic and transportation plan to route truck traffic away from disadvantaged communities.

*Air District staff recommends that this measure be completed prior to approving any new development or occupancy permits for the OAB.*

(5) Use zoning authority and incentives such as small business loans and subsidies to move freight and supporting service activities away from disadvantaged communities and to appropriate locales.

*Consistent with OAB mitigation measures to reduce emissions/exposure from trucks.*

(6) End practice of conditional use permitting to allow incompatible freight operations in the community.

*Consistent with OAB mitigation measures to reduce emissions and exposure from trucks.*

(7) Use parking, route, and idling restrictions to move incompatible freight activities out of the community.

*Consistent with OAB mitigation measures to reduce emissions and exposure from trucks.*



(8) Improve signage to avoid any confusion over such parking, route, and idling restrictions.

*Consistent with OAB mitigation measures to reduce emissions and exposure from trucks.*

(9) Enforce truck parking, route, and idling restrictions. This includes training enforcement personnel, taking enforcement delegation as necessary to enforce specific requirements, and providing funding for enforcement personnel.

*Consistent with OAB mitigation measures to reduce emissions and exposure from trucks.*

(10) Work with community to design and install network of air monitoring sensors, and commit to using data to design and assess impacts of mitigation measures.

*Air District staff supports this recommendation*

**The City and Port Must Create More Meaningful Processes for Community Input on Decision Making**

(1) The Mayor should create a Sustainable Freight Advisory Committee to provide input and oversight on Port and City planning efforts. The Committee should include designated seats for community members.

*Air District staff supports this recommendation*

(2) The City should engage in a community-based effort that brings stakeholders together to create a shared vision of the future of West Oakland. The process should include standing, facilitated meetings with all stakeholders including representatives from the City, Port, other local, state and federal agencies, businesses, unions, and impacted residents.

*Air District staff supports this recommendation. The current OAB stakeholder process does not accommodate meaningful input from the community stakeholders on proposed development within the OAB. A new stakeholder process should be initiated and integrated with the stakeholder process currently being developed for the AB 617 Community Health Protection Action Plan underway for the West Oakland Community.*

(3) Planning should connect with broader planning efforts underway with the Alameda County Transportation Commission.

*Air District staff supports this recommendation.*

(4) The City should provide notice and at least 30 days of comment period on all relevant planning or land-use decisions.

*Air District staff supports this recommendation*





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April 12, 2018

Patricia McGowan  
City of Oakland Environmental Coordinator  
City of Oakland Planning and Building Department  
250 Frank H. Ogawa Plaza, Suite 3315  
Oakland, CA 94612

**Subject:** City/Prologis Operational Air Quality Plans for the Oakland Army Base

**Dear Ms. McGowan:**

Bay Area Air Quality Management District (Air District) staff has reviewed the two Operational Air Quality Plans (Plans) prepared for the Prologis portion of the Oakland Army Base (OAB). The Plans are intended to demonstrate compliance with the Standard Conditions of Approval (SCAs) and Mitigation Measures (MM) adopted by the Oakland City Council (City) and Port of Oakland (Port) to lessen the significant air quality impacts anticipated with buildout of the OAB. The West Oakland community is one of the most disproportionality impacted communities for Toxic Air Contaminants (TACs) and Particulate Matter (PM) in the Bay Area, and the focus of substantial efforts by the Air District and others to reduce public exposure to these emissions.

Unfortunately, the Plans submitted by the City and Prologis will only require future tenants to comply with existing regulations, and will fall short of mitigating or reducing the substantial TAC, PM and ozone precursor emissions identified in the DEIR for the OAB. The West Oakland community would therefore be subjected to a substantial increase in air pollution from activity at the OAB that will reverse years of work and millions of dollars invested in the Port and West Oakland community to reduce the public's exposure to TACs and PM.

Air District staff have participated in the public stakeholder process that was created by the City in 2013 to ensure the implementation of the SCAs and MMs to minimize air pollution from the OAB. The Air District has provided the City, Port and Prologis a detailed list of strategies that could be implemented to meet the emission reductions anticipated in the SCAs and MMs. Air District staff have also identified millions of dollars of incentive funding that could assist the City, Port and Prologis in minimizing air emissions in the West Oakland community from the OAB development. Virtually none of the strategies were made requirements in the Plans for future development.

Mitigation Measure 4.4-4 states that "The City and Port shall jointly create, maintain and fund on a fair share basis, a truck diesel emission reduction program." To address this mitigation measure, the Plans includes a number of

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measures in Section 4.1, and states that "the requirements below will reduce the diesel emissions including diesel particulate matter and nitrogen oxides produced during the operation of these warehouses." In reality, the "requirements" listed in section 4.1 will do practically nothing to "reduce" emissions below what would have already occurred due to existing regulations. Tenants will be allowed to bring in trucks and equipment that are not the cleanest available and that only meet current regulations. To "mitigate" and achieve the emission reductions expected through MM 4.4-4, the Plan could have required all trucks entering the OAB property to meet 2010 diesel emission standards; all trucks with transport refrigeration units to be capable of plugging into power at loading docks and required to plug in when at the loading dock; all cargo handling and material handling equipment to be the lowest emission equipment available at the time of occupancy, not when the tenant decides to purchase new equipment; a dock management system to have been required at time of occupancy and not when idling limits are exceeded. These and other feasible measures consistent with the requirements in the Lease Disposition and Development Agreement (LDDA) can and should be included in the Plan that would have actually "reduced" TAC and PM emissions from future development on the West Oakland community.

Since the OAB was approved in 2012, more stringent health based ambient air quality standards have been promulgated by the U.S. EPA and therefore the air quality impacts resulting from development at the OAB will be more severe on public health than the impacts identified in the OAB DEIR. In addition, AB 617 was approved by the State Legislature in 2017 which established the Community Air Protection Program. The focus of AB 617 is to reduce TAC and PM emissions and exposure in communities most impacted by air pollution. Because of the disproportionate impacts occurring within the West Oakland community, they have been selected by the Air District for the first AB 617 Community Health Protection Action Plan in the Bay Area. It is more critical now than ever for the City to ensure that development at the OAB does not unnecessarily further degrade the air quality in the West Oakland community. Approving Plans that essentially only require compliance with existing regulations does nothing to lessen the adverse impacts that will occur from future development at the OAB.

On page 11 of the Operational Air Quality Plan, the City states that the Plan accomplishes goals consistent with the BAAQMD guidance of "Meeting the spirit and letter of the mitigation program; Providing measurable, quantifiable, results; Protecting health of nearby workers and residents." As mentioned by Air District staff at the stakeholder meeting on March 15, 2018, these Plans will not achieve these goals. These Plans are not consistent with the letter or spirit of the "Bold Vision" adopted in 2010 for development at the OAB, or the SCAs and MMs adopted by the City Council. Please remove this statement from the Plan.

Air District staff continues to be willing and ready to work with the City, Port and developers to develop a Plan that will protect the health of the West Oakland community. If you have any questions or would like to discuss Air District recommendations further, please contact Dave Vintze, Air Quality Planning Manager, at 415-749-5179, or at [dvintze@baaqmd.gov](mailto:dvintze@baaqmd.gov).

Sincerely,

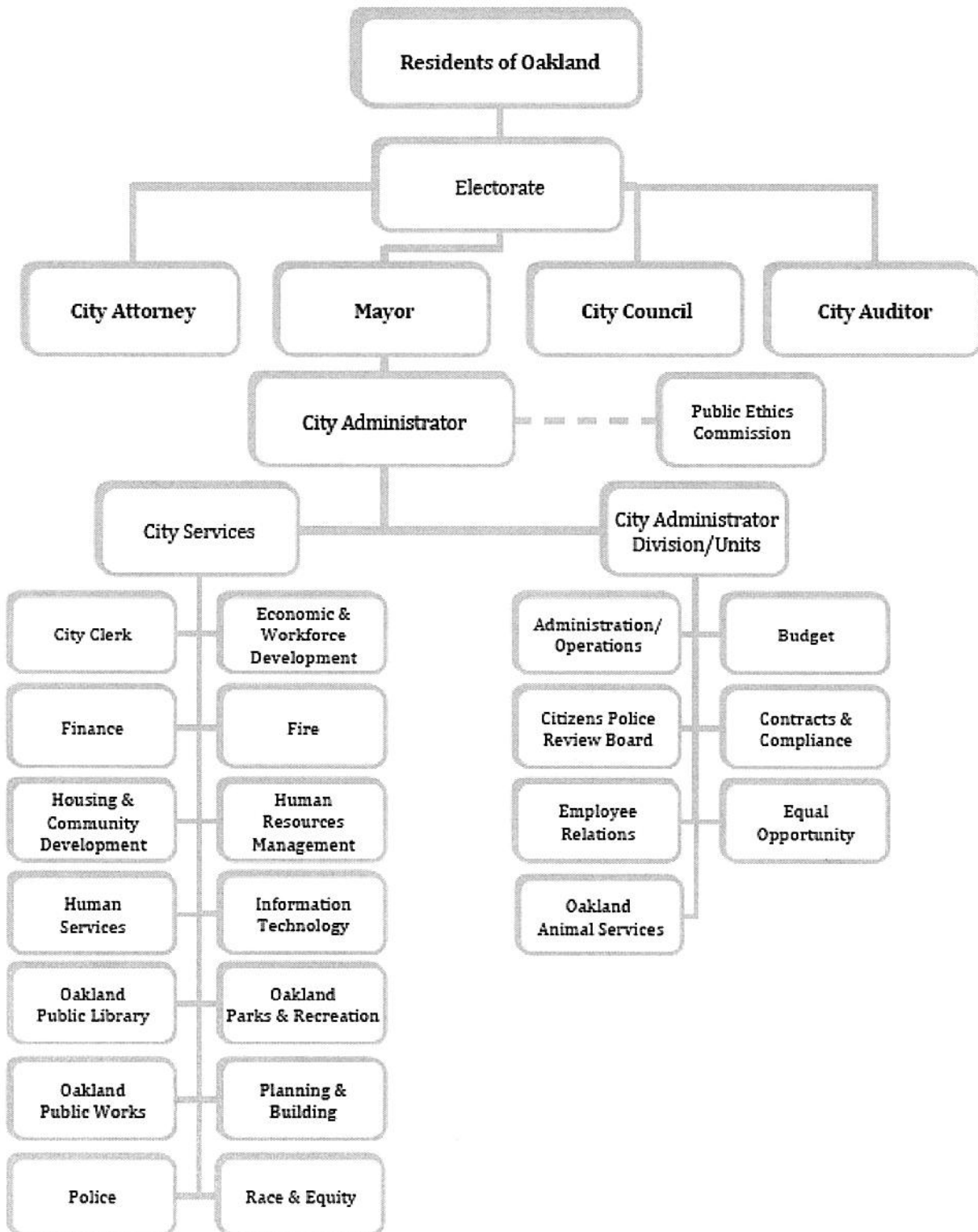


**Gregory Nudd**  
Deputy Air Pollution Control Officer

cc: BAAQMD Director Pauline Russo Cutter  
BAAQMD Director Scott Haggerty  
BAAQMD Director John J. Bauters  
BAAQMD Director Nate Miley  
Libby Schaff, Mayor, City of Oakland  
Muntu Davis, ACPHD, Director and County Health Officer  
Cynthia Marvin, California Air Resources Board  
Richard Grow, U.S. EPA  
Ryan Fitzpatrick, U.S. DOT  
Ericka Farrell, U.S. EPA  
Darin Ranelletti, Deputy Director of Planning & Building, City of Oakland  
Chris Lytle, Executive Director, Port of Oakland  
William Gilchrest, Director of Planning & Building, City of Oakland  
Elizabeth Lake, Assistant City Administrator  
Ms. Margaret Gordon, West Oakland Indicators Project  
Brian Beveridge, West Oakland Indicators Project



# CITY OF OAKLAND ORGANIZATION CHART



# Comprehensive Annual Financial Report

For the Years Ended June 30, 2016 and 2015



**PORT OF OAKLAND**  
Oakland, California

(A Component Unit of the City of Oakland)



**Port of Oakland**  
**Oakland, California**  
(A Component Unit of the City of Oakland)

**Comprehensive Annual Financial Report**  
**For the Years Ended June 30, 2016 and 2015**

Prepared by the Financial Services Division

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**PORT OF OAKLAND**  
**(A Component Unit of the City of Oakland)**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**Fiscal Years Ended June 30, 2016 and 2015**

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## INTRODUCTORY SECTION

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- GFOA Certificate of Achievement for Excellence in Financial Reporting
- Organization Chart
- Appointed Officials, Executive and Contributing Staff

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November 29, 2016

**Board of Port Commissioners of the City of Oakland  
Oakland, California**

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Port of Oakland (Port), a component unit of the City of Oakland (City), as of and for the fiscal years ended June 30, 2016 and 2015. All amounts are rounded to the nearest thousand dollars within this report for presentation purposes.

Responsibility for the accuracy of the data, and the completeness and reliability of the information contained in the report rests with management of the Port. The framework of internal controls provides reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. The data as presented is believed to be accurate in all material aspects and presented in a manner designed to fairly set forth the financial position and changes in financial position of the Port.

This letter of transmittal is designed to complement the management discussion and analysis (MD&A), which provides a narrative introduction, overview, and analysis to the financial statements, and should be read in conjunction with the MD&A.

Certain statements in this letter of transmittal reflect not historical facts but forecasts, projections, estimates and other "forward-looking statements." The achievement of results, or other expectations, involves known and unknown risks, uncertainties and other factors that may cause actual results to be materially different than forecasted results. The Port is not obligated to issue updates or revisions to this discussion if and when the expectations, events, conditions or circumstances on which these statements are based, occur or fail to occur, as the case may be.

**Profile of the Port of Oakland**

The Port is an independent department of the City. The City has operated a public harbor to serve waterborne commerce since its incorporation in 1852. The City has operated an airport since 1927. Exclusive control and management of the Port area, which includes the harbor, airport, and other commercial real estate was delegated to a seven-member Board of Port Commissioners (Board) in 1927 by an amendment to the City Charter.

The Board has exclusive control of all of the Port's facilities and property, real and personal, all income and revenues of the Port, and proceeds of all bond sales initiated by it for harbor, airport, and other commercial real estate improvements, or for any other purpose. The Board has the power under the Charter to fix, alter, change or modify the rates, tolls, fees, rentals and other charges for the use of the Port's facilities and any services provided in connection with the Port's facilities. A substantial portion of the Port's revenues are governed by lease, use, license and other agreements with the tenants and customers of the Port's three business lines: Aviation, Maritime and Commercial Real Estate. The Port is required by the City Charter to deposit its revenues in the City Treasury.

The Oakland International Airport (Airport) is a passenger, cargo and general aviation airport located on approximately 2,600 acres of land. The Airport is one of three major commercial airports serving the San Francisco Bay Area and the largest cargo hub in Northern California. In 2015 the Airport ranked 35<sup>th</sup> in the United States in terms of total passengers and 13<sup>th</sup> in terms of air cargo tonnage. In fiscal year 2016, the Airport served approximately 11.6 million passengers and 1.2 billion pounds of air cargo. As of June 2016, the Airport averaged 141 passenger departures to 53 domestic and international destinations, as well as over 20 daily all-cargo flight departures to destinations around the globe.

The Oakland seaport (Seaport) serves as the principal ocean gateway for international containerized cargo shipments in Northern California and is one of four major gateways for such shipments on the West Coast of North America. The Seaport is one of the top ten container ports in the United States, based on the number of twenty-foot equivalent units (TEUs) handled annually. In fiscal year 2016, approximately 2.3 million full and empty TEUs moved through the Seaport. The Seaport comprises approximately 1,300 acres, including marine container terminals; intermodal rail facilities; areas for truck staging and other support services; and a portion of the former Oakland Army Base, which the Port is developing into a trade and logistics center. These facilities are backed by a network of roads and a deep water navigation channel. All major ocean carriers serve the Seaport, which connect the Bay Area with the major trading centers of global commerce around the world.

In addition, the Port oversees approximately 837 acres of land along the Oakland Estuary that is not used for maritime or aviation purposes. The commercial real estate properties on this land serve a number of uses including warehouses, parking lots, hotels, offices, shops, restaurants, public parks and open space.

Most of the Airport, Seaport, and commercial real estate properties are located on land that is owned by the City and, under the City Charter, controlled and managed by the Port subject to a trust imposed pursuant to numerous tideland grants from the State of California dating back as far as 1852. Certain requirements and restrictions are imposed by the tideland grants. Generally, the use of lands subject to the trust is limited to statewide public purposes, including commerce, navigation, fisheries, and other recognized uses. The trust also places certain limitations on the use of funds generated from trust lands and other assets.

### **Operating and Capital Budgets**

The Port's operating budget is an essential component of the Port's financial and operational planning and management. The operating budget serves as a plan for each division's operating revenues and expenses and for Port-wide non-operating income and expenses. Operating budgets are prepared and presented annually to the Board. For fiscal year 2017, Port staff prepared a five-year operating forecast. The first year of the operating forecast is presented to the Board for adoption as the Port's operating budget, while the additional four years are presented in concept only.

In addition to preparing the operating budget, Port staff annually prepare a five-year capital improvement program (CIP) and a one-year capital budget. The one-year capital budget is presented to the Board for adoption, while the CIP is presented in concept only. The five-year CIP does not include significant capacity expansion projects and thus will generally not generate significant new revenues. Criteria for inclusion in the five-year CIP is generally limited to regulatory and life safety requirements, revenue maintenance, contractual landlord obligations, and anticipated funding and staffing resources.

The development of the fiscal year 2017 budget included (i) balancing growing Airport demand against time to recover from the loss of a major Maritime terminal operator, (ii) maximizing flexibility and protecting against the inherent uncertainties in the recovery of Maritime revenues, (iii) supporting and maintaining day-to-day operations; (iv) continuing progress on the major capital projects underway; and (v) focusing on revenue maintenance and enhancement.

The approved fiscal year 2017 operating and capital budgets, and five-year operating forecast and CIP, are available on the Port's website at, [www.portofoakland.com/about/investors.aspx](http://www.portofoakland.com/about/investors.aspx) and discussed at a high level in this transmittal letter.

## **Economic Outlook and Financial Planning**

The Port is located in the San Francisco Bay Area, a sizeable and generally affluent metropolitan area whose economy is intricately linked with global trade. Home to the world's technology leaders and a hub for higher education, the San Francisco Bay Area both shapes and is shaped by the global economy. The Port serves as a conduit for the area's global trade with an Airport closest to the majority of the San Francisco Bay Area population, and a Seaport that offers shorter transit times to Asia than other West Coast ports and serves as the primary gateway for California's premium agricultural goods. This favorable geographic position provides strong local markets that support both demand and resiliency for the use of Airport, Seaport and commercial real estate properties.

The Port ends fiscal year 2016 in significantly better financial condition compared to the lows of fiscal year 2009. The Airport business is growing rapidly with passenger traffic up 8.0% over the last year; however, a major Seaport tenant filed for bankruptcy and vacated the Port in the spring of 2016. In addition, expenses continue to rise faster than revenues with personnel costs, security costs and major maintenance expenses leading the way. Lastly, the Port's 5-year CIP remains constrained due in part to relatively high levels of debt service continuing for another 14 years before tapering down. Port management continues to be very mindful and discerning in the development of its budget, keeping costs down to the extent prudently possible and closely examining past and expected expenditures to tighten budget estimates.

In fiscal year 2017, the Port budgeted total operating revenues of approximately \$343.2 million, a 1.5% increase from \$338.0 million in fiscal year 2016. Revenue projections reflect expectations of continuing above-average growth at the Airport, offset by the impact of the loss of a major terminal operator at the Seaport. Operating expenses before depreciation are budgeted at approximately \$205.5 million for fiscal year 2017, an approximate 13.4% increase from \$181.2 million in fiscal year 2016. Personnel costs, which represent 52% of the operating expense budget, drive a significant portion of this increase and are reflective of expected increases in medical premiums, pension contributions, and wages.

The Port projects operating revenues to increase to \$388.7 million by the end of fiscal year 2021, for an anticipated compound annual growth rate of 3.2%. During this period, the growth in Maritime revenues is anticipated to outpace Aviation as Maritime revenues recover from the loss of a terminal operator and Airport passenger growth is assumed to be moderate at 2.0-2.5% per year. The Port is anticipating operating expenses (excluding depreciation) to increase to \$236.8 million by fiscal year 2021, for an anticipated annual growth rate of 3.6%. Personnel costs are assumed to increase at a compound annual growth rate of 4.6%, assuming no increase in FTEs from current staffing levels, and is driven by assumed increases in medical premiums of 6% per annum and increases in pension funding rates.

The Port's pension contribution rates are projected to increase from 34.2% in fiscal year 2017 to 42.3% of covered payroll in fiscal year 2021. The significant increase in required pension funding has been included in the Port's operating forecast, but will not be reflected in future actual operating expenses due to the implementation of GASB 68 during fiscal year 2015, which separates the contributions (cash flow) from the recognition of expense in the financial statements. Prior to GASB 68, expense recognition matched required plan contributions and did not represent the cost of benefits earned over the period. GASB 68 also requires the Port to recognize a net pension liability representing the total pension obligation less the value of assets held by the plan to fund future distributions. The impact of GASB 68 is discussed in further detail in the Management's Discussion and Analysis section and in Note 9 of the accompanying financial statements.

For fiscal year 2017, the Board authorized an initial budget of \$113.6 million in capital expenditures. This amount is related to projects for which there is already a contractual obligation, as well as limited amounts for pre-development work to scope potential projects and miscellaneous facilities replacement projects. Contractual obligations are generally defined as expenditures for which there is an active contract in place or a lease agreement that requires the Port to take certain actions, where miscellaneous facilities replacement projects is generally defined as smaller scope projects or needs that may arise during the course of the fiscal year that are unforeseen or difficult to predict with certainty. Over the course of the fiscal year, an additional \$45.9 million of pipeline projects is anticipated to be authorized by the Board, after

the pre-development work is concluded. Approximately \$33.3 million of the capital expenditures are expected to be funded with various Aviation and Maritime grants, \$24.2 million is expected to be funded with Passenger Facility Charges (PFC) and Customer Facility Charges, and the remaining will be funded with available cash or financed with commercial paper debt, that is anticipated to be repaid with PFC Revenues. A description of the major capital projects is provided under Major Initiatives.

The Port's senior management and staff will continue to assess financial and operational measures in the context of projected business activity levels, and will continue to pursue additional revenue enhancement and cost-savings initiatives that may be available going forward. These areas of focus were central to the development of the Port's fiscal year 2017 operating and capital budgets, as well as the five-year operating forecast and CIP.

### **Major Initiatives**

The Port continues to work on the major initiatives previously identified which are focused on upgrading the Port's facilities to sustain and accommodate changes in the industry, improve its overall competitiveness, maintain safety, and enhance security. Many of these initiatives span multiple years due to the scope and complexity of these initiatives.

Following are the most significant projects underway or recently completed for each of the Port's business lines:

#### **Aviation**

*Terminal 1 Retrofit and Renovation Program.* The Port continues to work on the renovation and retrofit of OAK's Terminal 1 (T1 Program). The T1 Program focuses on replacing aging infrastructure, bringing building systems up to code, and reducing life-cycle costs. During fiscal year 2016, the exterior seismic work for Building M102 was completed, building systems were demolished to facilitate the interior construction, and interior seismic bracing was installed. Interior renovations will begin in fiscal year 2017 and include a new window wall system to increase natural light, upgraded restrooms, new elevators, a redesign of the second floor administrative offices and public meeting space, and signage enhancements. Construction is expected to be completed in spring 2017.

*International Arrivals Building Upgrades.* In fiscal year 2015, the Port began preliminary design and planning for operability improvements to the International Arrivals Building (IAB). The project improves reliability and functionality of the dated facility to better serve the international passenger market, including a new baggage carousel, expanded passenger processing, updated restroom facilities, and seismic and other building system upgrades. The project will bring the IAB up to current standards, extend its useful life, and make it serviceable and functional to safely and efficiently accommodate passengers and air carrier operations up to about 600 passengers per hour. The project is anticipated to be completed in 2017.

*Runway Safety Area Improvements.* The FAA requires that commercial airports regulated under Part 139 have standard Runway Safety Areas (RSAs) where practicable. RSAs enhance the safety of airplanes in the event that the aircraft undershoots, overruns, or veers off the runway. The FAA provides approximately 80% of the funding to support these upgrades through the Airport Improvement Program grants. Construction of the South Field improvements was substantially completed in September 2014. North Field construction began November 2014 and was completed prior to the Congressionally mandated deadline of December 31, 2015.

*Runway 12/30 Rehabilitation.* Runway 12/30 is the Airport's main commercial air carrier runway. A runway pavement overlay project completed in 2001 extended the service life of the runway for an estimated 15 years; accordingly, the runway is due for a new overlay. Portions of the runway were upgraded as part of the RSA project described above. Planning and design of a pavement overlay project for the remaining portion of Runway 12/30 began in fiscal year 2016 and will continue into fiscal year 2017, with construction planned for summer 2017.

*Perimeter Dike.* The perimeter dike separates the South Field airfield from San Francisco Bay waters. The Port completed a series of studies that assessed existing geotechnical conditions, vulnerability of the dike to storms, sea level rise, and potential future seismic events, and has identified improvements needed to address those vulnerabilities. Design and environmental review has been completed. The full project, estimated at \$55 million, is designed to be scalable to allow for construction based on available funding.

### **Maritime**

*Seaport Logistics Complex.* Between 2003 and 2007, the Oakland Army Base (OAB) - a former military supply depot built during World War II and closed in 1993 - was transferred to the City of Oakland and Port. The Port is working to develop its portion of the former OAB into a logistics center that will include new cross-dock and transloading facilities, a new manifest rail yard (with support tracks), a new intermodal rail terminal, and related facilities. The development will facilitate the efficient movement of cargo in and out of the Port's marine terminals, improve intermodal service, and position the Port to secure additional maritime and maritime-related business. Development is being phased to match market demand and funding availability. The first phase of development - construction of the new manifest and support rail yards - is substantially complete. These improvements will provide additional railcar storage capacity for current and future customers at the Seaport Logistics Complex, particularly transload, bulk, and break bulk businesses. Additionally, the Port is currently in negotiations with a private developer to develop approximately 30 acres of land adjacent to the new rail yard into a new logistics facility.

*Temperature-Controlled Facilities.* In October 2015, the Board approved a 30-year lease, with options to extend up to 66-years, with Cool Port Oakland, LLC for the development and operation of a new temperature controlled transload facility at the Seaport. The development includes a 283,000 square foot refrigerated cross-dock/storage facility on approximately 25 acres of land in the heart of the Seaport area, a new at-grade rail crossing, and approximately 11,000 linear feet of track connecting the facility to the main rail line. The intent of the development is to increase the import and export of perishable food products through Northern California. Construction is anticipated to start in early 2017, with operations anticipated to commence later that year.

*Congestion Relief and Operational Efficiency.* Since the closure of the Outer Harbor Terminal in spring 2016, the other marine terminals have accommodated all the displaced cargo and, as a result, have been very busy. Even before this unexpected event, congestion at the marine terminals was increasing for a variety of reasons. In response, the Port has invested in various initiatives to reduce congestion and accelerate cargo flow: (1) in August 2015 the Port launched the Port Efficiency Task Force (PETF) to address several challenges resulting in congestion inside and outside terminal entrance gates and contributing to overall efficiency and profitability of the supply chain. Members of the PETF include all sectors of the supply chain and meet on a quarterly basis. The PETF is focusing on the development of transportation-related performance metrics, extended gate operations, and the implementation of marine terminal appointment systems; (2) in fiscal year 2016 the Port provided approximately \$1.6 million to help offset the initial costs of a pilot program for marine terminal operators to operate extended gate hours. The pilot program has since become a self-funded and permanent program for the Port's largest terminal operator; (3) the Port continues to make off-terminal land available for container pick-up and drop-off to ease terminal congestion; (4) the Port has implemented real-time monitoring of wait times inside and outside marine terminals so that drivers can better plan transactions around peak periods of marine terminal activity; and (5) the Port recently executed a new lease with one of its marine terminal operators for an expanded facility, which includes a new, larger entrance gate complex and more cargo handling capacity.

### **Commercial Real Estate**

The Port welcomed new tenants, including restaurants and office space, at the Jack London Square area through the partnership between the Port and its developer partner. In March 2016 the Port approved the assignment of numerous long term ground leases in Jack London Square from Jack London Square Ventures LLC to CIM Group. CIM Group is a nationally recognized, well-respected real estate investment company with substantial experience in developing and operating mixed use complexes in urban areas throughout the United States. The Port is currently working with CIM Group to attract tenants to the remaining available retail spaces and complete associated tenant improvements.

### **Awards**

The Port received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the Port's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A certificate is valid for a period of one year only. The Port will be submitting the current Comprehensive Annual Financial Report to GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

We would like to express our appreciation to the Financial Services Division for their professionalism, dedication, and efficiency in the preparation of this report. We also extend our appreciation to the other Port divisions who contributed to this report and to Macias Gini & O'Connell LLP for their assistance and guidance. Finally, we thank the Board for their attention and continuing support to plan and manage the Port's financial operations in a responsible and progressive manner.

Respectfully submitted,



Sara Lee  
Chief Financial Officer



Julie Lam  
Port Controller



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**Port of Oakland  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

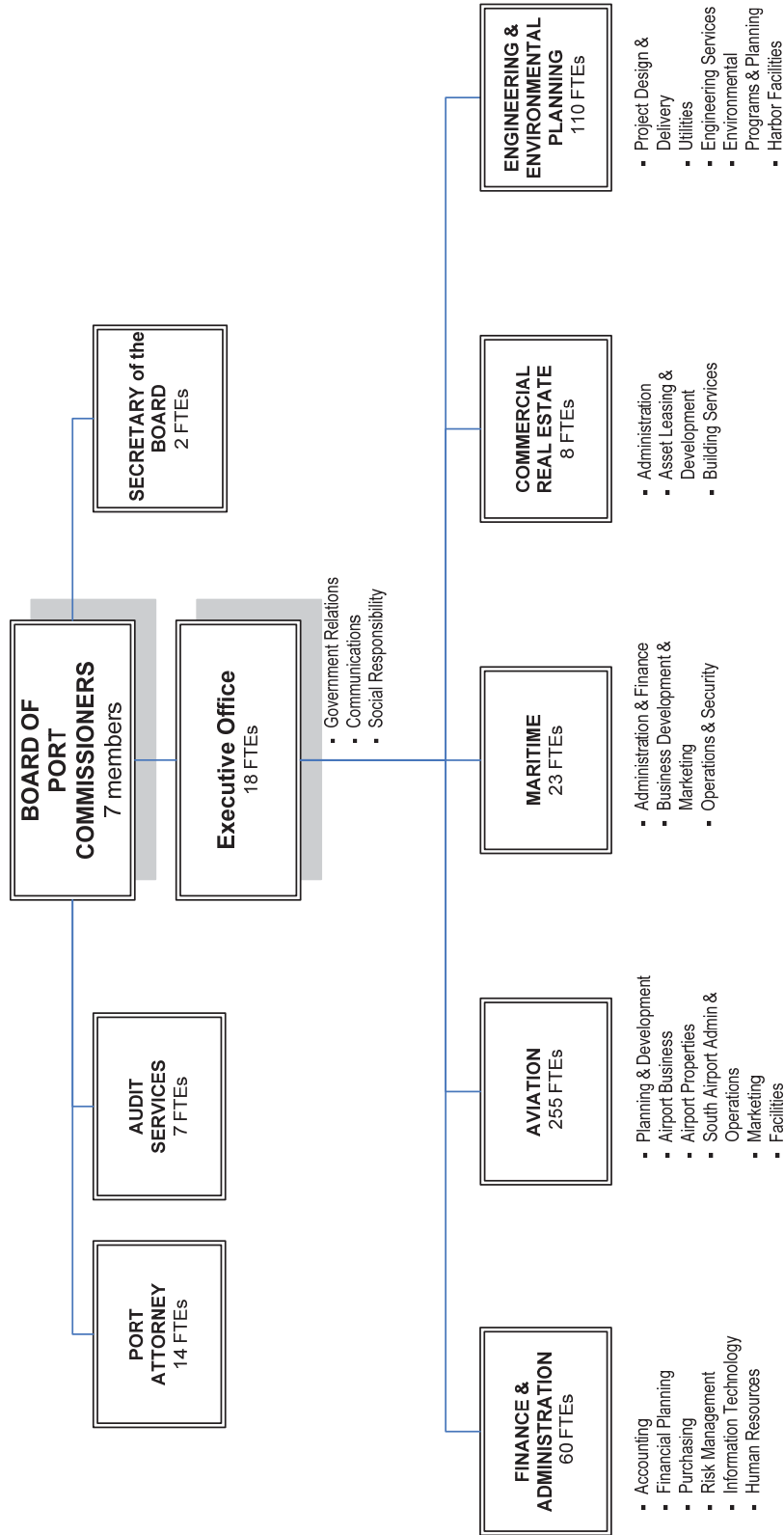


Executive Director/CEO

# PORT OF OAKLAND ORGANIZATION CHART

Fiscal Year 2015-16

497 Funded FTEs (Full-Time Equivalents)





## **PORT OF OAKLAND**

### **Appointed Officials, Executive Management and Contributing Staff**

For the Year Ended  
June 30, 2016

#### **Board of Port Commissioners of the City of Oakland**

Earl S. Hamlin, President  
Alan S. Yee, First Vice- President  
Michael Colbruno, Second Vice-President  
Cestra Butner, Commissioner  
Andreas Cluver, Commissioner  
Arabella Martinez, Commissioner  
Joan H. Story, Commissioner

#### **Executive Management**

Chris Lytle, Executive Director  
Bryant L. Francis, Director of Aviation  
John C. Driscoll, Director of Maritime  
Pamela Kershaw, Director of Commercial Real Estate  
Chris Chan, Director of Engineering  
Sara Lee, Chief Financial Officer  
Danny Wan, Port Attorney

#### **Contributing Staff**

Julie Lam, Port Controller  
Angelica Avalos, Port Senior Accountant  
Leandro Denoga, Port Senior Accountant  
Katri Jones, Administrative Specialist  
Saw May Khoo, Port Staff Accountant II  
Betsy Kwok, Port Staff Accountant II  
Raymond Lei, Port Staff Accountant I  
Alan Lum, Port Staff Accountant I  
Cecilia Ravare, Port Accounting Supervisor  
Stanley Tanaka, Port Senior Accountant  
David Zolezzi, Port Senior Financial Analyst

530 Water Street  
Oakland, California 94607

Phone: 510-627-1100  
Website: [portofoakland.com](http://portofoakland.com)

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## FINANCIAL SECTION

- Independent Auditors' Report
- Management's Discussion and Analysis  
(unaudited)
- Financial Statements
- Required Supplementary Information  
(unaudited)

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## Independent Auditor's Report

Board of Port Commissioners of the City of Oakland,  
Oakland, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the Port of Oakland (Port), a component unit of the City of Oakland, California as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedule of funding progress – other postemployment benefits identified in the accompanying table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the Port's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Oakland, California  
November 29, 2016

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Management's Discussion and Analysis (unaudited)**  
**June 30, 2016 and 2015**

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## Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) is intended to provide information concerning known facts and conditions affecting the Port of Oakland's (Port) operations. The following discussion and analysis of the financial performance and activities of the Port provides an introduction and understanding of the financial statements of the Port for the fiscal years ended June 30, 2016 and 2015, with comparative information for June 30, 2014. This MD&A has been prepared by management and should be read in conjunction with the financial statements and the accompanying notes, which follow this section.

## Financial Statement Overview

The Port's financial report includes the MD&A, financial statements, notes to the financial statements, and required supplementary information. The financial statements include the Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; and Statements of Cash Flows. In addition, the report includes a statistical section, which presents various financial and operating data.

The Port prepares the financial statements on the accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB). Revenues are recognized when earned, not when received, and expenses are recognized when incurred, not when paid. Capital assets are capitalized and, with the exception of land, air rights and noise easements, depreciated over their estimated useful lives.

## Summary of Net Position

The Statements of Net Position present the financial position of the Port at the end of the fiscal year. The statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Port. Net Position, the difference between assets, deferred outflows/inflows of resources, and liabilities, are an indicator of the current fiscal health of the Port and can provide an indication of improvement or deterioration of its financial position over time. A summarized comparison of the Port's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30 follows (in thousands):

	2016	\$ Change	% Change	2015	\$ Change	% Change	2014
Current and other assets	\$ 447,249	\$ 27,276	6.5%	\$ 419,973	\$ 39,908	10.5%	\$ 380,065
Capital assets, net	2,199,020	(13,391)	-0.6%	2,212,411	15,637	0.7%	2,196,774
Total assets	2,646,269	13,885	0.5%	2,632,384	55,545	2.2%	2,576,839
Deferred outflows of resources	44,576	17,754	66.2%	26,822	13,391	99.7%	13,431
Debt outstanding	1,162,186	(42,591)	-3.5%	1,204,777	(53,488)	-4.3%	1,258,265
Other liabilities	356,646	(28,888)	-7.5%	385,534	163,720	73.8%	221,814
Total liabilities	1,518,832	(71,479)	-4.5%	1,590,311	110,232	7.4%	1,480,079
Deferred inflows of resources	29,467	330	1.1%	29,137	29,137	100.0%	-
Net investment in capital assets	1,097,049	43,167	4.1%	1,053,882	66,923	6.8%	986,959
Restricted for construction	14,840	2,774	23.0%	12,066	1,994	19.8%	10,072
Unrestricted	30,657	56,847	-217.1%	(26,190)	(139,350)	-123.1%	113,160
Total net position	\$ 1,142,546	\$ 102,788	9.9%	\$ 1,039,758	\$ (70,433)	-6.3%	\$ 1,110,191

**Port of Oakland  
(A Component Unit of the City of Oakland)  
Management's Discussion and Analysis (unaudited)  
June 30, 2016 and 2015**

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**Summary of Net Position (continued)**

**2016**

Total net position at June 30, 2016, increased approximately \$102,788 thousand or 9.9% from \$1,039,758 thousand on June 30, 2015 to \$1,142,546 thousand on June 30, 2016. The 2016 increase in net position was primarily driven by an increase in net investments in capital assets of approximately \$43,167 thousand and a net increase in unrestricted assets of approximately \$56,847 thousand.

The \$43,167 thousand increase in net investments in capital assets is primarily due to scheduled debt payments of \$50,761 thousand, the net amortization of bond premiums of \$6,023 thousand, offset by a decrease in capital assets of \$13,391 thousand. The decrease in capital assets was due to an increase in accumulated depreciation of \$103,396 thousand and asset retirements of \$1,750 thousand offset by \$92,295 thousand of construction and equipment purchases, primarily related to infrastructure development and improvements at the Airport and Seaport (refer to pages 11-12 for more details).

The increase in unrestricted assets was primarily due to a net increase in the Port's cash and accounts receivable balances of \$25,738 thousand, which was driven by the collection of various federal and state grant reimbursements, and a net decrease in other liabilities driven by the termination of a long-term lease agreement which resulted in the immediate recognition of previously unearned revenue of \$46,977 thousand, offset by the recognition of a loss contingency for deferred maintenance of leased property of \$22,308 thousand. Additionally, the Port recognized \$19,213 thousand of an increase in deferred outflows related to pensions, primarily consisting of differences between projected and actual earnings on investments held by the Port's CalPERS pension fund, which was offset by an increase in net pension liability of \$12,286 thousand.

**2015**

Total net position at June 30, 2015, decreased approximately \$70,433 thousand or 6.3% from \$1,110,191 thousand on June 30, 2014 to \$1,039,758 thousand on June 30, 2015. In 2015 the decrease in net position was primarily driven by an increase in net investments in capital assets of approximately \$66,923 thousand, offset by a decrease in unrestricted net position of approximately \$139,350 thousand.

Net investment in capital assets, increased \$66,923 thousand due to a decrease in outstanding debt of \$50,466 thousand caused by scheduled principal payments, an increase in capital assets, net of depreciation, of approximately \$15,969 thousand due to infrastructure development and significant facilities improvements at the Airport and Seaport (refer to pages 11-12 for more details), and a decrease in accounts payable on construction contracts of \$903 thousand driven by the timing of contractor payments.

Unrestricted net position decreased approximately \$139,350 thousand due to the recognition of net pension obligations and related deferred outflows and inflows of resources as required by GASB 68 totaling \$178,979 thousand. This decrease was mainly offset by an increase in accounts receivable of \$57,314 thousand primarily for federal and state grants funding the development of the Seaport Logistics Complex at the Seaport and federally mandated runway improvements at the Airport. Also, because of the earlier measurement date allowed for the net pension liability and period-to-period actuarial changes, the accounting rules require the reporting of certain deferred outflows of resources (\$15,077 thousand for employer contributions subsequent to the measurement date) and deferred inflows of resources (\$29,137 thousand for assumption difference and changes), separate from assets and liabilities.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Management's Discussion and Analysis (unaudited)**  
**June 30, 2016 and 2015**

**Summary of Revenues, Expenses and Changes in Net Position**

The Statements of Revenues, Expenses and Changes in Net Position reflect how the Port's net position changed during the most recent fiscal year compared to the prior year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. A summary of the Statements of Revenues, Expenses and Changes in Net Position as of June 30 follows (in thousands):

	Twelve Months Ended						
	2016	\$ Change	% Change	2015	\$ Change	% Change	
Operating revenues	\$ 338,037	\$ 1,450	0.4%	\$ 336,587	\$ 13,547	4.2%	\$ 323,040
Passenger facility charge revenue	22,929	1,451	6.8%	21,478	1,780	9.0%	19,698
Customer facility charge revenue	5,939	(314)	-5.0%	6,253	628	11.2%	5,625
Gain on lease termination	35,200	35,200	100.0%	-	-	n/a	-
Interest income	2,149	366	20.5%	1,783	410	29.9%	1,373
Grant revenue	1,419	(2,455)	-63.4%	3,874	3,874	100%	-
Other income	3,744	484	15%	3,260	3,260	100%	-
Total revenues	<u>409,417</u>	<u>36,182</u>	<u>9.7%</u>	<u>373,235</u>	<u>23,499</u>	<u>6.7%</u>	<u>349,736</u>
Operating expenses							
before depreciation	181,157	7,494	4.3%	173,663	9,337	5.7%	164,326
Depreciation	104,077	2,318	2.3%	101,759	2,500	2.5%	99,259
Interest expense	49,889	(1,747)	-3.4%	51,636	(2,341)	-4.3%	53,977
Customer facility charge expense	4,307	170	4.1%	4,137	(82)	0.0%	4,219
Other expense	629	629	100.0%	-	(6,518)	-100%	6,518
Grant expense	1,419	(2,455)	-63.4%	3,874	3,874	100%	-
Total expenses	<u>341,478</u>	<u>6,409</u>	<u>1.9%</u>	<u>335,069</u>	<u>6,770</u>	<u>2.1%</u>	<u>328,299</u>
Change in net position before capital contributions	67,939	29,773	78.0%	38,166	16,729	78.0%	21,437
Capital contributions -							
Grants from government agencies	34,849	(38,876)	-52.7%	73,725	13,390	22.2%	60,335
Increase in net position	102,788	(9,103)	-8.1%	111,891	30,119	36.8%	81,772
Net position, beginning of the year	1,039,758	111,891	12.1%	927,867	(100,552)	-9.8%	1,028,419
Net position, end of the year	<u>\$1,142,546</u>	<u>\$ 102,788</u>	<u>9.9%</u>	<u>\$1,039,758</u>	<u>\$ (70,433)</u>	<u>-6.3%</u>	<u>\$1,110,191</u>

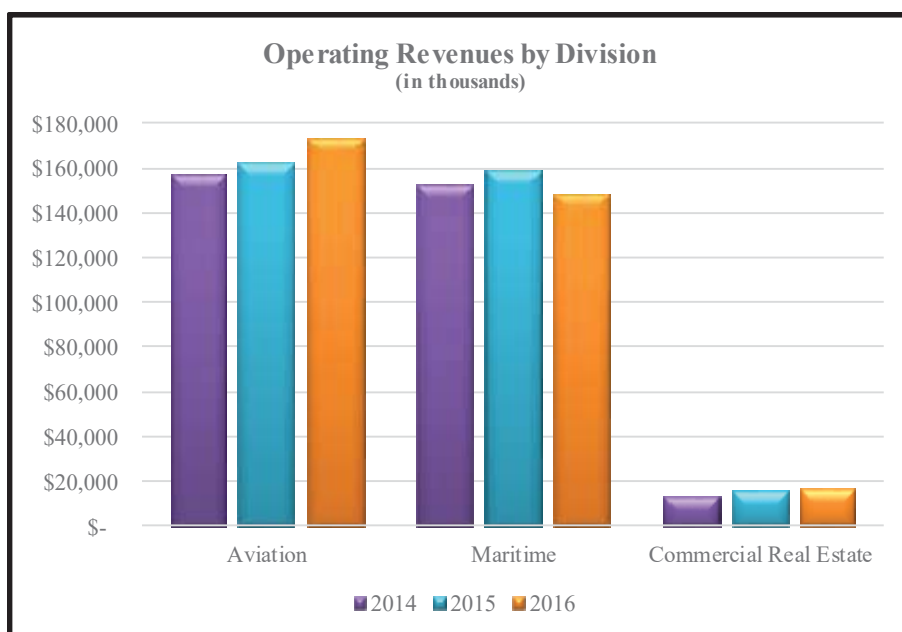
**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Management's Discussion and Analysis (unaudited)**  
**June 30, 2016 and 2015**

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**Operating Revenues by Division**

A condensed summary of operating revenues as of June 30 follows (in thousands):

<b>Division</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Aviation	\$ 173,067	\$ 162,135	\$ 157,220
Maritime	148,772	158,684	152,657
Commercial Real Estate	16,198	15,768	13,163
<b>Total</b>	<b>\$ 338,037</b>	<b>\$ 336,587</b>	<b>\$ 323,040</b>



**2016**

The Port's total operating revenues increased slightly by approximately \$1,450 thousand or 0.4% from \$336,587 thousand in fiscal year 2015 to \$338,037 thousand in fiscal year 2016.

The Aviation Division generated \$173,067 thousand or 51.2% of the Port's total operating revenues in fiscal year 2016. Aviation's operating revenues increased approximately \$10,932 thousand or 6.7% from \$162,135 thousand in fiscal year 2015 to \$173,067 thousand in fiscal year 2016. The increase in Aviation operating revenue was primarily due to increases in terminal rents and other terminal revenues of \$5,849 thousand, parking and ground access revenues of \$3,478 thousand, and terminal concession revenues of \$1,389 thousand. The increases in Aviation revenue was driven by increases in both the terminal rental rates and passenger traffic. Effective average terminal rates increased from \$204.58 per square foot in 2015 to \$227.75 per square foot in 2016 and passenger traffic increased 8.0% from 10.75 million passengers in 2015 to 11.61 million passengers in 2016.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Management's Discussion and Analysis (unaudited)**  
**June 30, 2016 and 2015**

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**Operating Revenues by Division (continued)**

The Maritime Division generated \$148,772 thousand or 44.0% of the Port's total operating revenues in fiscal year 2016. Maritime's operating revenues decreased approximately \$9,912 thousand or 6.2% from \$158,684 thousand in fiscal year 2015 to \$148,772 thousand in fiscal year 2016. The decrease in Maritime operating revenue was primarily due to the termination of a long term lease agreement with Outer Harbor Terminal (formerly Ports America Outer Harbor Terminal) during fiscal year 2016.

The Commercial Real Estate Division generated \$16,198 thousand or 4.8% of the Port's total operating revenues in fiscal year 2016. Commercial Real Estate's operating revenues increased approximately \$430 thousand or 2.7% from \$15,768 thousand in fiscal year 2015 to \$16,198 thousand in fiscal year 2016. The increase in Commercial Real Estate revenue was primarily due to increases in percentage rents, short-term rentals and parking revenue all driven by increased business activity in Jack London Square.

**2015**

The Port's operating revenues increased approximately \$13,547 thousand or 4.2% from \$323,040 thousand in fiscal year 2014 to \$336,587 thousand in fiscal year 2015.

The Aviation Division generated \$162,135 thousand or 48.2% of the Port's total operating revenues in fiscal year 2015. Aviation's operating revenues increased approximately \$4,915 thousand or 3.1% from \$157,220 in fiscal year 2014 to \$162,135 thousand in fiscal year 2015. The increase in Aviation operating revenue was primarily due to increases in: terminal concession revenues of \$1,174 thousand, parking revenue of \$2,478 thousand, and lease rentals of \$1,937 thousand. The primary reason for concession and parking revenue increases was the 8.7% increase in passenger traffic from 9.89 million passengers in fiscal year 2014 to 10.75 million passengers in fiscal year 2015. Lease rental increases were due primarily to increased leased space as well as rent escalations for existing leases tied to the CPI index. These increases were offset by a \$1,024 thousand decrease in ground access revenues due to discontinued AirBART operations which were ceased after the new BART-Oakland Airport Connector was placed in service in November 2014.

The Maritime Division generated \$158,684 thousand or 47.1% of the Port's total operating revenues in fiscal year 2015. Maritime's operating revenues increased approximately \$6,027 thousand or 3.9% from \$152,657 thousand in fiscal year 2014 to \$158,684 thousand in fiscal year 2015. The increase in Maritime operating revenue was primarily due to increased non-terminal rentals and utility sales from shore power usage. Full Twenty-Foot Equivalent Units (TEUs) decreased 6.5% from 1,832,559 in fiscal year 2014 to 1,713,812 in fiscal year 2015.

The Commercial Real Estate Division generated \$15,768 thousand or 4.7% of the Port's total operating revenues in fiscal year 2015. Commercial Real Estate's operating revenues increased approximately \$2,605 thousand or 19.8% from \$13,163 million in fiscal year 2014 to \$15,768 million in fiscal year 2015. The increase in Commercial Real Estate revenue was primarily due to increases in percentage rents, short-term rentals and parking revenue all driven by increased business activity in Jack London Square.

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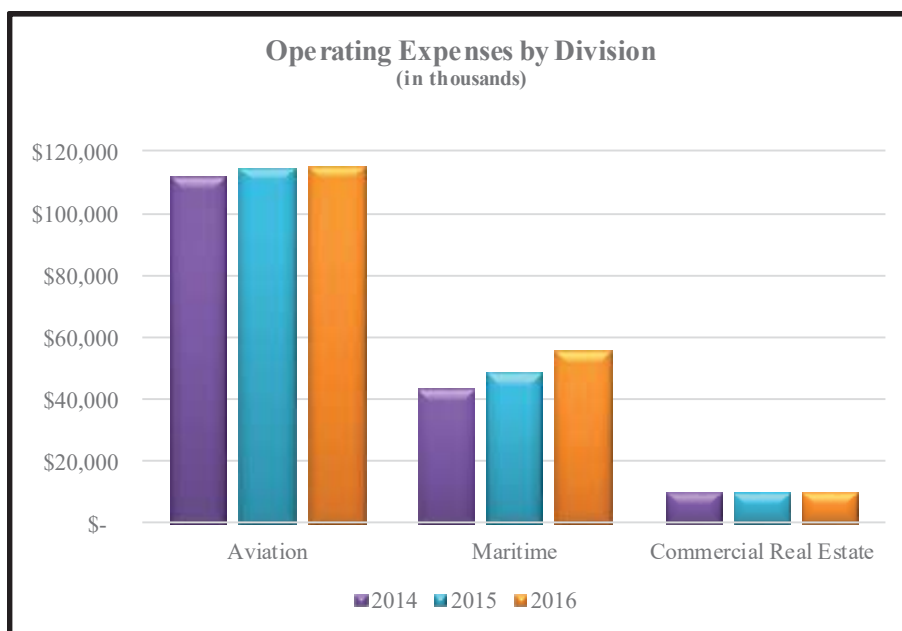
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**Operating Expenses by Division**

A condensed summary of operating expenses (excluding depreciation) as of June 30 follows (in thousands):

<b>Division</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Aviation	\$ 115,344	\$ 114,902	\$ 111,251
Maritime	55,738	48,532	43,201
Commercial Real Estate	10,075	10,229	9,874
<b>Total</b>	<b>\$ 181,157</b>	<b>\$ 173,663</b>	<b>\$ 164,326</b>

Note: For comparative purposes, fiscal year 2015 and 2014 are restated to conform with 2016's presentation where expenses reimbursed with Customer Facility Charges were reclassified from operating to non-operating expenses.



**2016**

The Port's operating expenses, excluding depreciation, increased approximately \$7,494 thousand or 4.3% from \$173,663 thousand in fiscal year 2015 to \$181,157 thousand in fiscal year 2016.

The Aviation Division represented 63.7% of the Port's total operating expenses in fiscal year 2016. Aviation's operating expenses increased slightly by \$442 thousand or 0.4% from \$114,902 thousand in fiscal year 2015 to \$115,344 thousand in fiscal year 2016. This increase was primarily due to an increase in Airport security expenses of \$2,081 thousand, driven by increased security coverage needs and increased security services cost due to rising healthcare and retirement expenses for security personnel, offset by a decrease in pollution remediation expenses of \$1,798 thousand, due to higher costs in the prior year as a result of a new site identified during construction of the Runway Safety Area project.

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**Operating Expenses by Division (continued)**

The Maritime Division represented 30.8% of the Port's total operating expenses in fiscal year 2016. Maritime's operating expenses increased \$7,206 thousand or 14.8% from \$48,532 thousand in fiscal year 2015 to \$55,738 thousand in fiscal year 2016. This increase was driven by an increase in pollution remediation expense of \$3,009 thousand due to continued remediation on the former Oakland Army Base and planned development at the former Outer Harbor Terminal, an increase in maintenance dredging expense of \$1,329 thousand due to strategically increased dredging efforts, and an increase of \$1,585 thousand of expenses for an extended night gate assistance program that was implemented in 2016 by the Seaport to help ease congestion at the marine terminals.

The Commercial Real Estate Division represents 5.6% of the Port's total operating expenses in fiscal year 2016. Commercial Real Estate's operating expenses in fiscal year 2016 were essentially unchanged from fiscal year 2015.

**2015**

The Port's operating expenses, excluding depreciation, increased approximately \$9,337 thousand or 5.7% from \$164,326 thousand in fiscal year 2014 to \$173,663 million in fiscal year 2015.

The Aviation Division represented 66.2% of the Port's total operating expenses in fiscal year 2015. Aviation's operating expenses increased approximately \$3,651 or 3.3% from \$111,251 million in fiscal year 2014 to \$114,902 thousand in fiscal year 2015. The increase is primarily due to higher wages, medical premiums, security and safety costs, and maintenance expenses.

The Maritime Division represented 27.9% of the Port's total operating expenses in fiscal year 2015. Maritime's operating expenses increased approximately \$5,331 thousand or 12.3% from \$43,201 thousand in fiscal year 2014 to \$48,532 thousand in fiscal year 2015. The increase is primarily due to higher wages, medical premiums, maintenance expenses, truck parking expenses resulting from increased volume, and utility expenses resulting from utilization of the shore power program.

The Commercial Real Estate Division represented 5.9% of the Port's total operating expenses in fiscal year 2015. Commercial Real Estate's operating expenses increased approximately \$355 thousand or 3.6% from \$9,874 thousand in fiscal year 2014 to \$10,229 thousand in fiscal year 2015. The increase is primarily due to higher wages, medical premiums and maintenance costs.

**Depreciation Expense by Division**

A summary of depreciation expense as of June 30 follows (in thousands):

<b>Division</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Aviation	\$ 50,000	\$ 46,587	\$ 42,738
Maritime	51,397	52,077	53,404
Commercial Real Estate	2,680	3,095	3,117
Total	<u>\$ 104,077</u>	<u>\$ 101,759</u>	<u>\$ 99,259</u>

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**Depreciation Expense by Division (continued)**

A summary of depreciation expense for non-grant funded assets and grant funded assets for June 30 (in thousands) follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Non-grant funded assets	\$ 81,068	\$ 70,625	\$72,755
Grant funded assets (including those funded by PFCs)	<u>23,009</u>	<u>31,134</u>	<u>26,504</u>
Total depreciation expense	<u>\$104,077</u>	<u>\$101,759</u>	<u>\$99,259</u>

**2016**

In fiscal year 2016, depreciation expense increased \$2,318 thousand or 2.3%. Maritime's depreciation decreased approximately \$680 thousand due to several assets that fully depreciated during the year. Aviation depreciation expense increased \$3,413 thousand due to assets placed into service near the end of fiscal year 2015 and several additions placed in service during the first half of fiscal year 2016. The most significant assets placed in service by the Aviation division related to the Airport Runway Safety Area project. Commercial Real Estate's depreciation decreased approximately \$415 thousand due to several assets that fully depreciated during the year.

**2015**

In fiscal year 2015, depreciation expense increased \$2,500 thousand or 2.5%. Maritime depreciation decreased approximately \$1,327 thousand due to several assets that fully depreciated during the year. Aviation depreciation expense increased \$3,849 thousand due to assets placed into service near the end of fiscal year 2014 and several additions placed in service during the first half of fiscal year 2015. The most significant assets placed in service by the Aviation division related to the Airport Runway Safety Area, BART-Oakland Airport Connector and the Terminal 1 retrofit and renovation projects.

**Interest Expense**

Interest expense decreased \$1,747 thousand or 3.4% in fiscal year 2016 from \$51,636 thousand in fiscal year 2015 to \$49,889 thousand in fiscal year 2016. This was following a decrease in interest expense in fiscal year 2015 of \$2,341 thousand or 4.3% from \$53,977 in fiscal year 2014. In both cases the decreases in interest expense were the result of scheduled principal payments reducing the overall amount of debt outstanding.

**Gain on Lease Termination**

In fiscal year 2016 the Port recognized a one-time gain on lease terminal of \$35,200 thousand for the net impact of the closure of Outer Harbor Terminal (formerly Ports America Outer Harbor Terminal). The gain was composed of the immediate recognition of unamortized unearned revenue from the rental contract of \$46,977 thousand, the recognition of security deposits and settlement fees of \$10,560 thousand, offset by the recognition of a loss contingency for deferred maintenance of the leased property of \$22,337 thousand. While the Port recognized a net gain in 2016, the Port is anticipating short-term decreases in maritime revenue as a result of the terminal closing.

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## Capital Contributions

Capital contributions consist solely of grants received from other government agencies. Grants, for the most part, are restricted for the acquisition or construction of capital assets.

In fiscal year 2016, grants from government agencies decreased approximately \$38,876 thousand or 52.7% from \$73,725 thousand in fiscal year 2015 to \$34,849 thousand in fiscal year 2016. The decrease is primarily due to a decrease in capital spending on two grant funded projects. The Outer Harbor Intermodal Terminal Railyard Phase 1 development, partially funded by a Trade Corridor Improvement Fund grant, and the Runway Safety Area project, partially funded with Airport Improvement Program grants, were substantially completed during fiscal year 2016. In fiscal year 2016 the majority of capital contributions recognized by the Port consisted of approximately \$14,074 thousand in grant funding from the Trade Corridor Improvement Fund grant and \$17,285 thousand in grant funding from various Airport Improvement Program grants.

In fiscal year 2015, grants from government agencies increased approximately \$13,390 thousand or 22.2% from \$60,335 thousand in fiscal year 2014 to \$73,725 thousand in fiscal year 2015. The increase is driven by continued capital spending on two large grant funded projects. The Outer Harbor Intermodal Terminal Railyard Phase 1 development, partially funded by a Trade Corridor Improvement Fund, and the Runway Safety Area project, partially funded with Airport Improvement Program grants. In fiscal year 2015 the majority of capital contributions recognized by the Port consisted of approximately \$33,212 thousand in grant funding from the Trade Corridor Improvement Fund grant and \$31,616 thousand in grant funding from various Airport Improvement Program grants.

## Capital Assets (net of depreciation) and Capital Improvement Program

A summary of Capital Assets, net of depreciation and amortization as of June 30 follows (in thousands):

	<b>2016</b>	<b>% Change</b>	<b>2015</b>	<b>% Change</b>	<b>2014</b>
Capital assets:					
Land	\$ 523,374	0.0%	\$ 523,339	0.0%	\$ 523,283
Noise easements and air rights	25,852	0.0%	25,852	0.0%	25,852
Construction in progress	181,907	8.4%	167,751	-16.4%	200,709
Buildings and improvements	280,675	-7.8%	304,280	-7.4%	328,579
Container cranes	49,877	-8.8%	54,700	-8.1%	59,523
Infrastructure	1,099,661	0.3%	1,096,210	7.4%	1,020,455
Software	6,901	-15.9%	8,206	-11.7%	9,289
Other equipment	30,773	-4.1%	32,073	10.3%	29,084
Total	<u>\$ 2,199,020</u>	-0.6%	<u>\$ 2,212,411</u>	0.7%	<u>\$ 2,196,774</u>

Net capital assets decreased by approximately \$13,391 thousand or 0.6% in fiscal year 2016, due to capital asset additions of \$92,295 thousand, offset by retirements and abandoned construction in progress of \$1,750 thousand and an increase in accumulated depreciation of 103,936 thousand. Major additions to capital assets in fiscal year 2016 were related to Airport Terminal 1 retrofit and renovation; Airport Runway Safety Area project; and Outer Harbor Intermodal Terminal Railyard Phase 1.

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**Capital Assets (net of depreciation) and Capital Improvement Program (continued)**

Net capital assets increased by approximately \$15,637 thousand or 0.7% in fiscal year 2015, due to capital asset additions of \$117,455 thousand offset by retirements and abandoned construction in progress of \$5,679 thousand and an increase in accumulated depreciation of \$96,139 thousand. Major additions to capital assets in fiscal year 2015 included the BART – Oakland Airport Connector; Airport Terminal 1 retrofit and renovation; Airport Runway Safety Area improvements; and Oakland Logistics Center development project.

Additional information on the Port's capital assets can be found in Note 4 Changes in Capital Assets in the accompanying notes to the financial statements.

On June 23, 2016, a five-year (fiscal year 2017-2021) Capital Improvement Plan (CIP) in the amount of \$490 million was presented to the Board of Port Commissioners (Board) for informational purposes. For fiscal year 2017, the Board adopted a capital budget of \$113.6 million. The most significant projects in the five-year CIP are:

Aviation: Terminal 1 renovation and retrofit; Runway 12-30 rehabilitation; and International Arrival Building upgrades.

Maritime: Marine terminal improvements and Seaport Logistics Center development.

**Debt Administration**

The following table summarizes the Port's outstanding debt as of June 30 (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Bond Indebtedness	\$ 1,028,550	\$ 1,075,075	\$ 1,118,890
Dept. of Boating and Waterway Loan	4,678	4,914	5,140
Commercial Paper	84,591	74,398	77,398
Subtotal debt	1,117,819	1,154,387	1,201,428
Net unamortized premium (discount)	44,367	50,390	56,837
Total debt	<u>\$ 1,162,186</u>	<u>\$ 1,204,777</u>	<u>\$ 1,258,265</u>

In fiscal year 2016, the Port's total debt decreased approximately \$42,591 thousand or 3.5% from \$1,204,777 thousand in fiscal year 2015 to \$1,162,186 thousand in fiscal year 2016. The decrease resulted from principal payments of \$50,761 thousand on outstanding bonds, commercial paper, and a loan with the Department of Boating and Waterways and a decrease to unamortized bond premium totaling \$6,023 thousand. It was partially offset by the issuance of \$14,193 thousand of new commercial paper notes to reimburse the Port for capital project expenditures.

In fiscal year 2015, the Port's total debt decreased approximately \$53,488 thousand or 4.3% from \$1,258,265 thousand in fiscal year 2014 to \$1,204,777 thousand in fiscal year 2015. The decrease resulted from principal payments of \$47,041 thousand on outstanding bonds, commercial paper, and a loan with the Department of Boating and Waterways and a decrease to unamortized bond premium totaling \$6,447 thousand.

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**Debt Administration (continued)**

The debt coverage ratios for the fiscal years ended June 30 were as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Senior Lien	3.30	3.28	3.34
Intermediate Lien	1.61	1.68	1.64

The Senior Lien and Intermediate Lien debt service coverage ratio is calculated pursuant to the bond indentures.

Additional information on the Port's debt activity can be found in Note 5 Debt and Note 16 Subsequent Events in the accompanying notes to the financial statements.

**Credit Ratings**

The Port's credit ratings as of June 30, 2016 are as follows:

- Standard & Poor's Rating Services (S&P) underlying rating on the Port's Senior Lien Bonds is "A+", and the underlying rating on the Intermediate Lien Bonds is "A". The rating on the Port's Commercial Paper Notes for all series is "A-1".
- Moody's Investors Service, Inc. (Moody's) underlying rating on the Port's Senior Lien Bonds is "A2", and the underlying rating on the Intermediate Lien Bonds is "A3". The rating on the Port's Commercial Paper Notes for all series is "P1".
- Fitch Ratings' (Fitch) underlying rating on the Port's Senior Lien Bonds is "A+" and the underlying rating on the Intermediate Lien Bonds is "A-". The rating on the Port's Commercial Paper Notes for Series A, Series B, and Series C is "F1", and the rating on the Port's Commercial Paper Notes for Series D, Series E, and Series F is "F1+".
- The Port's Intermediate Lien Bonds are insured by National Public Finance Guarantee Corp. whose S&P rating is "AA-".

An update on the Port's credit ratings can be found in Note 16 Subsequent Events in the accompanying notes to the financial statements.

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## **Notes to the Financial Statements**

The notes to the Port's financial statements can be found on pages 21-59 of this report. These notes provide additional information that is essential to a full understanding of the financial statements.

## **Facts and Conditions Affecting the Port's Operation**

### ***Aviation***

The Airport is one of three commercial airports serving the San Francisco Bay Area; the Airport, San Francisco International (SFO), and Norman Mineta San Jose International (SJC). The Bay Area airports, especially the Airport and SFO, serve overlapping markets and compete for passengers who frequently consider more than one Bay Area airport when purchasing air travel. Additionally, airlines may shift their operations among the Bay Area airports based upon local competition and each airline's market share goals. Air carriers also consider airport operating costs, the availability of airport facilities and, in some cases, the location of existing alliance partner flight activity as contributing factors in their flight schedule decision-making process. In addition to the aforementioned factors, the activity levels at the Airport are also sensitive to general economic conditions, acts of terrorism or disease epidemic/pandemic which could significantly impact demand for air travel. The Airport is unable to predict how market competition or future economic conditions will affect the Airport's operations.

Alaska Air Group, Inc., the parent company of Alaska Airlines and Horizon Air, and Virgin America, Inc., have announced plans to merge. These plans have been approved by Virgin America, Inc. shareholders but remain subject to regulatory approvals. While Virgin America does not have service at the Airport, Alaska Airlines and Horizon Air handled 6.5% of total enplaned passengers in fiscal year 2016, the second largest market share based on enplanements after Southwest Airlines. Further airline consolidation remains possible. While the Port does not expect that the Alaska Air Group and Virgin America merger will have a significant impact on the passenger traffic at the Airport, future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in space rented by one or more airlines. Such decreases may result in reduced operating and PFC revenues.

### ***Maritime***

The Seaport is the principal ocean gateway for international containerized cargo shipments in Northern California, the nation's fourth largest metropolitan area. Historically, the Seaport has managed a balance of import and export trade, leading with a strong export base of California's premium agricultural products and other U.S. goods bound for foreign markets, making the Port sensitive to fluctuations in the global economy. Additionally, the Seaport competes with other U.S. West Coast ports, as well as with ports in other parts of the U.S. and in Canada and Mexico, for market share of discretionary intermodal rail cargo. Expansion of other ports or future infrastructure developments in the supply chain could result in greater diversion of this type of cargo from West Coast ports to East Coast and Gulf ports. As the Seaport continues to work towards expanding its market share of such cargo, these types of developments could hinder these efforts. The Port cannot predict the scope of potential impacts at this time.

The maritime industry has been facing significant economic pressure for some time, which has resulted in major financial losses, bankruptcy, marine terminal closure, and consolidation within segments of the supply chain. The following events illustrate how these supply chain pressures affected the Seaport over the last year and looking into the near future:

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- One of the world's largest ocean carriers (Hanjin Shipping) is in bankruptcy proceedings, and new alliances of major ocean carriers are under development. Aside from some temporary congestion, the Port does not expect Hanjin's bankruptcy to affect cargo volumes or terminal operations at the Seaport. Similarly, we do not expect pending alliance changes to have a material impact on overall cargo volumes at the Seaport, though the intra-Seaport cargo distribution may change; however, this expectation is based on very preliminary information and, as such, we cannot predict the final impact of anticipated changes, or future unforeseen changes, in the shipping industry.
- The Seaport lost a major marine terminal tenant in early 2016, causing a reduction of revenue in fiscal year 2016. Over 99% of the cargo handled by this terminal was non-discretionary cargo destined for or originating from Northern California locations; as such, the cargo has continued to be discharged/loaded in Oakland, but shifted to the remaining operating marine terminals. This unexpected terminal closure has improved capacity utilization at the remaining terminals, provided significant expansion opportunities for one terminal, and resulted in the operation of routine extended (night) gates in order to mitigate congestion.
- The maritime industry is also vulnerable to strikes and other union activities, particularly activities related to the unions employed by the marine terminal operators but also by "sympathetic" unions. For example, the Seaport experienced a slow-down of labor in early 2015 that caused congestion and cargo delays during labor contract negotiations. The Seaport's marine terminal leases provide certain assurances for revenue collection in the event of a strike or lockout; however, these assurances are inherently limited and are not designed to mitigate the impact of long-term cargo shifts to other ports if a labor disruption resulted in major cargo diversion.

### ***Commercial Real Estate***

Over the last decade, the Commercial Real Estate Division has leased most of its properties to developers or tenants under long-term ground leases, under which the developer or tenant is responsible for the development, subleasing, operation and maintenance of the improvements on the properties. The Port continues to work with the developers to ensure the properties are developed and managed in ways that are compliant with California Tidelands Trust regulations, however most of the development cost and financial risk is held by the developers.

### **Contacting the Port's Financial Management**

Requests for additional information about this report, should be addressed to the Financial Services Division, Port of Oakland, 530 Water Street, Oakland, California 94607 or visit the Port's website at [www.portofoakland.com](http://www.portofoakland.com).

**Port of Oakland**  
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**Statements of Net Position**  
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**(dollar amounts in thousands)**

	<b>2016</b>	<b>2015</b>
<b>Assets</b>		
Current assets:		
Unrestricted:		
Cash equivalents	\$ 296,454	\$ 198,946
Accounts receivable (less allowance for doubtful accounts of \$1,088 in 2016 and \$1,128 in 2015)	30,199	101,969
Prepaid expenses and other assets	3,219	3,527
Total unrestricted current assets	329,872	304,442
Restricted:		
Cash equivalents	12,375	9,424
Investments	57,719	57,867
Deposits in escrow	2,685	3,919
Passenger facility charges and customer facility charges receivable	2,958	2,914
Accrued interest receivable	161	170
Total restricted current assets	75,898	74,294
Total current assets	405,770	378,736
Non-current assets:		
Capital assets:		
Land	523,374	523,339
Noise easements and air rights	25,852	25,852
Construction in progress	181,907	167,751
Buildings and improvements	852,054	852,565
Container cranes	148,697	148,697
Infrastructure	1,943,951	1,871,579
Software	13,738	13,676
Other equipment	97,895	93,464
Total capital assets, at cost	3,787,468	3,696,923
Less accumulated depreciation	(1,588,448)	(1,484,512)
Capital assets, net	2,199,020	2,212,411
Other receivables	29,271	29,224
Other assets	12,208	12,013
Total non-current assets	2,240,499	2,253,648
Total assets	2,646,269	2,632,384
<b>Deferred Outflows of Resources</b>		
Loss on refunding	10,286	11,745
Deferred outflows related to pensions	34,290	15,077
Total Deferred Outflows of Resources	\$ 44,576	\$ 26,822

The accompanying notes are an integral part of these financial statements.

**Port of Oakland**  
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**Statements of Net Position (continued)**  
**June 30, 2016 and 2015**  
**(dollar amounts in thousands)**

	<u>2016</u>	<u>2015</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 26,980	\$ 42,179
Retentions on construction contracts	3,478	1,947
Environmental and other	15,853	10,548
Accrued interest	8,696	9,071
Long-term debt, net	54,822	52,257
Liability to City of Oakland	9,068	8,916
Unearned revenue	10,128	10,948
Total current liabilities	<u>129,025</u>	<u>135,866</u>
Non-current liabilities:		
Retentions on construction contracts	1,491	4,816
Environmental and other	42,877	22,241
Long-term debt, net	1,107,364	1,152,520
Net pension liability	177,204	164,918
Deposits	18,331	16,744
Other post employment benefits	10,121	10,249
Unearned revenue	32,419	82,957
Total non-current liabilities	<u>1,389,807</u>	<u>1,454,445</u>
Total liabilities	<u>1,518,832</u>	<u>1,590,311</u>
<b>Deferred Inflows of Resources</b>		
Deferred inflows related to pensions	<u>29,467</u>	<u>29,137</u>
<b>Net Position</b>		
Net investment in capital assets	1,097,049	1,053,882
Restricted for construction	14,840	12,066
Unrestricted	30,657	(26,190)
Total net position	<u>\$ 1,142,546</u>	<u>\$ 1,039,758</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

**Port of Oakland**  
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**Statements of Revenues, Expenses and Changes in Net Position**  
**For the years ended June 30, 2016 and 2015**  
**(dollar amounts in thousands)**

	2016				2015
	Aviation	Maritime	Commerical Real Estate	Total	Total
Operating revenues:					
Lease rentals - terminal	\$ 44,396	\$ 113,864	\$ -	\$ 158,260	\$ 172,236
Lease rentals - other	29,836	17,335	12,334	59,505	53,696
Parking fees and ground access	36,827	6,137	2,772	45,736	36,118
Landing fees	29,209	-	-	29,209	29,783
Terminal concessions	23,408	-	-	23,408	22,019
Utility sales	4,257	9,993	103	14,353	13,641
Fueling	2,336	-	-	2,336	2,940
Other	2,798	1,443	989	5,230	6,154
Total operating revenues	173,067	148,772	16,198	338,037	336,587
Operating expenses:					
Materials, contract services, supplies, and other	71,061	20,255	7,256	98,572	92,488
Maintenance	24,421	14,365	704	39,490	41,356
Advertising and promotion	3,335	1,816	363	5,514	5,148
Administration	14,652	14,166	1,650	30,468	27,597
Cost of utility sales	1,875	5,136	102	7,113	7,074
Depreciation	50,000	51,397	2,680	104,077	101,759
Total operating expenses	165,344	107,135	12,755	285,234	275,422
Operating income	7,723	41,637	3,443	52,803	61,165
Non-operating revenues (expenses):					
Interest income	266	1,289	594	2,149	1,783
Interest expense	(9,542)	(39,298)	(1,049)	(49,889)	(51,636)
Customer facility charges	5,939	-	-	5,939	6,253
Customer facility charges expenses	(4,307)	-	-	(4,307)	(4,137)
Passenger facility charges	22,929	-	-	22,929	21,478
Other income (expense)	4,706	(1,039)	77	3,744	3,176
Grant income	880	539	-	1,419	3,874
Grant expenses	(880)	(539)	-	(1,419)	(3,874)
Gain on long term lease termination	-	35,200	-	35,200	-
Gain (loss) on sale (disposal) of capital assets	(72)	(557)	-	(629)	84
Total non-operating revenue (expenses), net	19,919	(4,405)	(378)	15,136	(22,999)
Increase in net position before capital contributions	27,642	37,232	3,065	67,939	38,166
Capital contributions -					
Grants from government agencies	16,511	18,338	-	34,849	73,725
Increase in net position	\$44,153	\$55,570	\$3,065	102,788	111,891
Net position, beginning of the year				1,039,758	927,867
Net position, end of the year				\$1,142,546	1,039,758

(Concluded)

The accompanying notes are an integral part of these financial statements.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Statements of Cash Flows**  
**For the years ended June 30, 2016 and 2015**  
**(dollar amounts in thousands)**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Receipts from tenants and customers	\$ 340,981	\$ 332,838
Payments to suppliers	(89,741)	(80,917)
Payments to employees	(78,088)	(73,583)
Payments to employee retirement plans	(16,386)	(14,694)
Proceeds from lease termination	10,560	-
Other non-operating payments	(2,488)	(419)
Other non-operating receipts	2,325	-
Net cash provided by operating activities	<u>167,163</u>	<u>163,225</u>
Cash flows from noncapital financing activities:		
Proceeds from government agencies for recovery of operating costs	1,419	3,874
Proceeds from insurance and other recoveries	4,886	3,244
Net cash provided by noncapital financing activities	<u>6,305</u>	<u>7,118</u>
Cash flows from capital and related financing activities:		
Proceeds from new borrowings	38,176	59,398
Repayments/refunding of debt	(74,744)	(106,439)
Grants from government agencies	99,220	27,159
Interest paid on debt	(54,828)	(56,742)
Purchase of capital assets	(108,891)	(118,358)
Proceeds from sale of capital assets	1	352
Customer facility charge and passenger facility charge receipts	24,564	19,400
Net cash used in capital and related financing activities	<u>(76,502)</u>	<u>(175,230)</u>
Cash flows from investing activities:		
Interest received on investments	2,111	1,571
Purchase of restricted investments	(56,485)	(57,867)
Proceeds from maturity of restricted investments	57,867	1,630
Net cash (used in)/provided by investing activities	<u>3,493</u>	<u>(54,666)</u>
Net increase (decrease) in cash equivalents	100,459	(59,553)
Cash equivalents, beginning of year	<u>208,370</u>	<u>267,923</u>
Cash equivalents, end of year	<u>\$ 308,829</u>	<u>\$ 208,370</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Statements of Cash Flows (continued)**  
**For the years ended June 30, 2016 and 2015**  
**(dollar amounts in thousands)**

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 52,803	\$ 61,165
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	104,077	101,759
Proceeds from lease termination	10,560	-
Other	(163)	(419)
Net effects of changes in:		
Accounts receivable, net of capital grants	5,980	(11,779)
Prepaid expenses and other current assets	113	434
Other receivables and assets	(47)	13,947
Accounts payable and accrued liabilities	(525)	3,482
Liability to City of Oakland	152	3,763
Unearned revenue	(4,381)	(6,175)
Deposits	1,587	258
Environmental and other liabilities	3,604	(245)
Net pension liability and related deferred outflow/inflow of resources	<u>(6,597)</u>	<u>(2,965)</u>
Net cash provided by operating activities	<u>\$ 167,163</u>	<u>\$ 163,225</u>
Non-cash capital and related financing activities:		
Acquisition of capital assets in accounts payable and accrued liabilities	\$ 6,160	\$ 20,962
Net change in retention on capital construction contracts	(1,794)	(2,223)
Loss on disposal of capital assets	630	140
Abandoned construction in process and other capital assets	979	-
Gain on sale of capital assets	1	224
Net change in grants receivable	(64,371)	45,535
Long term lease termination:		
Loss contingency for deferred maintenance	22,337	-
Recognized unearned income	(46,977)	-

(Concluded)

The accompanying notes are an integral part of these financial statements.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**1. Organization**

The Port of Oakland, California (Port) was established in 1927 by the City of Oakland (City) and is included as a component unit in the City's basic financial statements. The accompanying financial statements include the operations of the Oakland International Airport (Airport or OAK), the maritime facilities (Seaport) and commercial real estate holdings.

The Port is governed by a seven-member Board of Port Commissioners (Board) whose members are appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by the City Charter to deposit its revenues in the City Treasury. The City Treasurer is responsible for investing and managing such funds.

**2. Significant Accounting Policies**

**Basis of Accounting**

The Port's financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflow/inflow of resources, and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are used to record environmental remediation liabilities, accounts receivable and grant receivable accruals, allowance for doubtful accounts, depreciation expense, net pension liability, other post-employment benefits costs and various expense allocations. Actual results could differ from those estimates.

**Net Position**

Net position represents the residual interest in the Port's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Net position consists of three sections: net investment in capital assets, restricted for construction, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of debt that is attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources or deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. The restricted component of net position consists of restricted assets reduced by liabilities related to those assets. As of June 30, 2016 and 2015, the statement of net position reported \$14,840,000 and \$12,066,000, respectively, as restricted for construction.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**Cash Equivalents**

The Port considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Port's cash and investments in the City Treasury are, in substance, demand deposits and are considered cash equivalents.

**Investments**

The Port reports its investments at fair value in the accompanying financial statements and the corresponding change in fair value of investments is reported in the year in which the change occurs. The cash and investments held in the City Treasury and government securities money market mutual fund investments are valued at amortized costs.

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded for invoices issued to customers and granting agencies in accordance with contractual arrangements. The allowance for doubtful accounts is based on a tiered percentage of significantly aged receivables. Accounts receivable are written-off against the allowance when deemed uncollectible. Recoveries of receivables previously written-off are recorded when received.

**Restricted Assets**

Assets whose use is restricted to specific purposes by bond indenture or regulation are segregated on the statements of net position.

**Capital Assets**

Capital assets are stated at cost and it is the policy of the Port to capitalize all expenses related to capital assets greater than \$5,000. Interest costs applicable to constructed assets are capitalized as part of the cost of the assets. Interest earned on temporary investment of the proceeds from qualifying tax-exempt debt is offset against interest costs capitalized. Depreciation expense is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings and improvements	5 to 50 years
Container cranes	25 years
Infrastructure	10 to 50 years
Other equipment	3 to 40 years
Software	3 to 10 years

Tenant improvements paid for by the tenants and owned by the Port are recorded as capital assets with an offsetting credit to unearned revenue. The asset is amortized over the shorter of the life of the lease or the life of the asset and the unearned revenue is amortized over the same terms.

Intangible assets which are identifiable are recorded as capital assets. The Port has identified noise easements, air rights and computer software development costs as intangible assets. Intangible assets not having indefinite useful lives are amortized over the estimated useful life of the asset.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**Other Receivables**

Other receivables include future lease receipts from a fifty-year finance lease agreement associated with the sale and lease of the Marina as discussed in Note 7.

**Loss on Refunding**

The loss on refunding at the time of a refunding is reported as deferred outflow of resources and is amortized as interest expense over the shorter of the remaining life of the refunded bonds or life of the new bonds.

**Unearned Revenue**

Unearned interest revenue and prepaid rent related to tenant leases are deferred and amortized principally on the straight-line method over the life of the remaining lease term.

**Compensated Absences**

The Port accrues employee benefits, including accumulated vacation and sick leave, as liabilities in the period the benefits are earned.

**Operating Revenues and Expenses**

Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the Port. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing activities. When an expense is incurred for purposes for which there are both restricted and unrestricted assets available, it is the Port's policy to first utilize available restricted assets and then to utilize unrestricted assets.

**Allocation of Expenses to the Port Businesses**

The Port records to each of its revenue divisions (Aviation, Maritime, and Commercial Real Estate) expenses directly related to those operations. In addition, the Port annually allocates indirect expenses to these divisions based on an expense allocation methodology. Allocated expenses include general operating expenses, maintenance, advertising and promotion, and administrative expenses.

**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Port's pension plan, and additions to/deductions from the Port's pension plan's fiduciary net position have been determined on the same basis as they are reported by the plan's administrator, State of California's Public Employees' Retirement System (CalPERS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms.

**Port of Oakland**  
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**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**Grants from Government Agencies**

Grants, for the most part, are restricted for the acquisition or construction of capital assets. Such grants are recorded as revenue when all eligibility requirements imposed by the provider have been met. Grants that reimburse for costs that would have otherwise been reported as operating expenses are reported as non-operating revenue and the corresponding expense reported as non-operating expense.

**Passenger Facility Charges**

The Port, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, currently imposes a Passenger Facility Charge (PFC) of \$4.50 for each enplaning passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC and are required to remit PFC revenues to the Port in the following month after they are recorded by the air carrier. The Port has three approved and active applications with the FAA to collect and use PFC funds for specific purposes. The current authority to impose PFCs is estimated to end February 1, 2035.

PFC revenues, including any interest earned thereon, are restricted solely to finance allowable costs of new airport planning and development projects as defined and authorized by the FAA. PFC revenues may be used to pay debt service and related expenditures associated with FAA approved projects and the Port has received FAA approval to pay certain debt service if debt proceeds are used for qualifying projects. PFC revenues are recorded as non-operating revenue and any unspent PFC revenues are recorded as restricted cash.

**Customer Facility Charges**

Under Section 1936 of the California Civil Code, and pursuant to a Port ordinance effective January 2009, the rental car companies operating at the Airport are required to collect from the rental customers and remit to the Port a \$10-per-transaction Customer Facility Charge (CFC). The revenues from CFCs collected by the Port are funding the common use shuttle bus operations between the terminal and rental car facility and are eligible to fund common use rental car facility capital improvements. CFC revenues are recorded as non-operating revenue and expenses reimbursed with CFC funds are recorded as non-operating expense. Any unspent CFC revenues are recorded as restricted cash.

**Effects of New Pronouncements**

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). This statement addresses accounting and financial reporting issues related to fair value measurements. GASB 72 requires the use of valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurement.

**Port of Oakland**  
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**For the years ended June 30, 2016 and 2015**

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**Effects of New Pronouncements (continued)**

As of July 1, 2015, the Port adopted the provisions of GASB 72, which did not have a significant impact on its financial statements. All required disclosures are added to Note 3 Cash, Cash Equivalents, Investments, and Deposits. For those investments held in the City Treasury, the City discloses the requirements regarding the hierarchy of valuation inputs and techniques used for the fair value measurements at the City-wide level in its financial reporting. However, such disclosure is not required at the department level for those investments held in the City Treasury.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). This statement establishes the hierarchy of generally accepted accounting principles (GAAP) for state and local governments. The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The new standard is effective for fiscal years beginning after June 15, 2015. As of July 1, 2015, the Port adopted the provisions of GASB 76, which did not have a significant impact on its financial statements.

**New Accounting Pronouncements Not Yet Adopted**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). GASB 75 is intended to make Other Post Employment Benefits (OPEB) accounting and financial reporting consistent with the pension standards outlined in GASB 68. This will include recognizing a net OPEB liability in accrual-basis financial statements. This statement is effective for fiscal years beginning after June 15, 2017. This statement applies to government employers who provide OPEB plans to their employees. Application of this statement is effective for the Port’s fiscal year ending June 30, 2018.

In March 2016, GASB issued Statement No. 82, *Pension Issues*, an amendment of GASB Statements No. 67, No 68, and No. 73. This statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan members) contribution requirements. The new standard is effective for periods beginning after June 15, 2016.

**Reclassification and Presentation**

Certain reclassifications of prior year’s balances have been made to conform with the current year presentation. The reclassifications have no effect on the total net position, change in net position or net changes in cash equivalents.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**3. Cash, Cash Equivalents, Investments, and Deposits**

The Port's cash, cash equivalents, investments and deposits in escrow consisted of the following at June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
U.S. Treasury Notes	\$ 57,719	\$ 57,867
Government Securities Money Market Mutual Funds	493	272
City Investment Pool	308,336	208,098
Deposits in Escrow	2,685	3,919
	<u>\$ 369,233</u>	<u>\$ 270,156</u>

**Deposits in Escrow**

Deposits in escrow consist of amounts received from construction contractors that are deposited into an escrow account in-lieu of retention withheld from construction progress billings. Interest on these deposits accrues to the contractor.

**Investments**

Senior Lien Bonds reserves are on deposit with the Senior Lien Bonds trustee. The investment of funds held by the Senior Lien Bonds trustee is governed by the Senior Trust Indenture and is currently invested in either 1) U.S. Treasury Notes or 2) Government Securities Money Market Mutual Funds. There were no investments pertaining to the Intermediate Lien Bonds.

Under the City Charter, all cash receipts from the operations of the Port are deposited in the City Investment Pool. These funds are managed and invested by the City, pursuant to the City's Investment Policy, that the City administers and reviews annually. For this reason, the Port does not maintain its own investment policy, and relies on the City Investment Policy to mitigate the risks described within this footnote.

At June 30, 2016, the Port had the following investments (in thousands):

	<u>Fair Value</u>	<u>Credit Rating per Moody's</u>	<u>Maturity</u>	
			<u>Less than 1 Year</u>	<u>1-5 Years</u>
U.S. Treasury Notes	\$ 57,719	Aaa	\$ 57,719	\$ -
Government Securities Money Market Mutual Funds	493	Aaa	493	-
City Investment Pool	308,336	Not rated	308,336	-
Total Investments	<u>\$ 366,548</u>		<u>\$ 366,548</u>	<u>\$ -</u>

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

**Investments (continued)**

At June 30, 2015, the Port had the following investments (in thousands):

		Credit Rating per Moody's	Maturity	
	Fair Value		Less than 1 Year	1-5 Years
U.S. Treasury Notes	\$ 57,867	Aaa	\$ -	\$ 57,867
Government Securities Money Market Mutual Funds	272	Aaa	272	-
City Investment Pool	208,098	Not rated	208,098	-
Total Investments	<u>\$ 266,237</u>		<u>\$ 208,370</u>	<u>\$ 57,867</u>

**Fair Value Hierarchy**

The Port categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. The inputs and techniques used for valuing securities are not necessarily an indication of risk associated with investing in those securities. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Port does not have any of its investments using level 2 or 3 inputs.

The following is a summary of the fair value hierarchy of investments held by the Port as of June 30, 2016 and 2015 (in thousands):

Investments by Fair Value Level	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)		
	2016	Investments Exempt from Fair Value	2015	Investments Exempt from Fair Value	2016	2015
U.S. Treasury Notes	\$ 57,719	\$ -	\$ 57,719	\$ 57,867	\$ -	\$ 57,867
Government Securities*	493	493	-	272	272	-
City Investment Pool	308,336	308,336	-	208,098	208,098	-
Total Investments	<u>\$ 366,548</u>	<u>\$ 308,829</u>	<u>\$ 57,719</u>	<u>\$ 266,237</u>	<u>\$ 208,370</u>	<u>\$ 57,867</u>

\*Money market funds

Investment securities classified in Level 1 of the fair value hierarchy consist of U.S. Treasury Notes and are valued using quoted prices in active markets. Investments exempt from fair value treatment consist of Government Securities Money Market Mutual Funds, which are valued at amortized cost, and the City Investment Pool, whose fair value disclosure is presented at the City-wide level in the City's financial reporting.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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### **Investments Authorized by Debt Agreements**

The following are the types of investments generally allowed under the Senior Trust Indenture and the Intermediate Trust Indenture (Intermediate Trust Indenture, together with the Senior Trust Indenture, are referred to as the Trust Indentures): U.S. Government Securities, U.S. Agency Obligations, obligations of any State in the U.S., prime commercial paper, FDIC insured deposits, certificates of deposit/banker's acceptances, money market mutual funds, long or medium-term corporate debt, repurchase agreements, state-sponsored investment pools, investment contracts, and forward delivery agreements.

### **Interest Rate Risk**

This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. Pursuant to the City Charter, all cash receipts from Port operations are deposited in the City Investment Pool. For this reason, the Port does not have a formal policy to manage interest rate risk.

In order to manage interest rate risk:

- Proceeds from bonds are invested in permitted investments, as stated in the Trust Indentures.
- The deposits held by the City Treasury are invested pursuant to the City's Investment Policy and Section 53601 of the State of California Government Code, which limits the maximum maturity of any investment to be no longer than 5 years. Also, Section 53601 limits the maximum maturity of any investment to be no longer than 5 years unless authority for such investment is expressly granted in advance by the City Council or authorized by bond covenants.

### **Credit Risk**

This risk represents the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligation. Pursuant to the City Charter, all cash receipts from Port operations are deposited in the City Investment Pool. For this reason, the Port does not have a formal policy to manage credit risk.

In order to manage credit risk:

- Provisions of the Trust Indentures prescribe restrictions on the types of permitted investments of the monies held by the trustee in the funds and accounts created under the Trust Indentures, including agreements or financial institutions that must meet certain ratings, such as certain investments that must be rated in either of the two highest ratings by S&P and Moody's.
- The deposits with the City Treasury are invested in short-term debt that is rated at least A-1 by S&P, P-1 by Moody's or F-1 by Fitch Ratings. Long-term debt shall be rated at least A by S&P, A2 by Moody's, and A by Fitch Ratings.

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### **Concentration of Credit Risk**

The Trust Indentures place no limit on the amount the Port may invest in any one issuer.

Port revenues are deposited in the City Treasury. These and all City funds are pooled and invested in the City Investment Pool. The City has adopted an investment policy that provides for the following:

- The maximum maturity for any one investment may not exceed 5 years.
- No more than 5 percent of the total assets of the investments held by the City may be invested in the securities of any one issuer except:
  - obligations of the United States government;
  - United States government sponsored enterprises;
  - insured certificates of deposit;
  - local government investment pools; and
  - money market investment funds.
- Permitted investments include U.S. treasury securities, federal agency and instrumentalities, banker's acceptances, commercial paper, asset-backed commercial paper, local government investment pools, medium-term notes, negotiable certificates of deposit, repurchase agreements, reverse repurchase agreements, secured obligations and agreements, certificates of deposit, money market mutual funds, state investment pool (Local Agency Investment Fund), local City/agency bonds and State of California obligations, and other local agency bonds. At the end of FY 2014-15 the City expanded its definition of permitted investments to include dollar-denominated obligations issued by supranational organizations.
- All investments are to be secured through third party custody and safekeeping procedures. All securities purchased from dealers and brokers are held in safekeeping by the City's custodial bank, which establishes ownership by the City.
- Additional information regarding deposit custodial credit, interest and credit risks, and securities lending transactions of the City Investment Pool is presented in the notes of the City's basic financial statements. Requests for financial information should be addressed to the Finance and Management Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 5330, Oakland, California 94612-2093.

### **Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution or counterparty to a transaction, the Port will not be able to recover the value of its investment or collateral securities that are in possession of another party.

To protect against custodial credit risk:

- All securities owned by the Port under the terms of the Trust Indentures are held in the name of the Port for safekeeping by a third party bank trust department, acting as an agent for the Port. The Port had investments held by a third party bank trust department in the amount of \$58,212,000 and \$58,139,000 at June 30, 2016 and 2015, respectively.
- All securities the Port has invested with the City are held in the name of the City for safekeeping by a third party bank trust department, acting as an agent for the City under the terms of the custody agreements. The Port had \$308,336,000 and \$208,098,000 invested in the City Investment Pool at June 30, 2016 and 2015, respectively.

**Port of Oakland**  
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**Custodial Credit Risk (continued)**

The carrying amount of the Port's deposits in escrow was held with two separate banks and totals \$2,685,000 at June 30, 2016 and \$3,919,000 at June 30, 2015. Of this amount, bank balances and escrow deposits of \$250,000 at each bank on June 30, 2016 and on June 30, 2015, are insured or collateralized with securities held by the pledging financial institution's trust department in the Port's name and the remaining balance of \$2,185,000 as of June 30, 2016 and \$3,419,000 as of June 30, 2015, was exposed to custodial credit risk by not being insured or collateralized.

**4. Changes in Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2016, is as follows (in thousands):

	<b>Beginning Balance July 1, 2015</b>	<b>Additions</b>	<b>Adjustments and Retirements</b>	<b>Transfers</b>	<b>Ending Balance June 30, 2016</b>
Capital assets not being depreciated					
Land	\$ 523,339	\$ -	\$ -	\$ 35	\$ 523,374
Intangibles (noise easements and air rights)	25,852	-	-	-	25,852
Construction in progress	167,751	90,264	(698)	(75,410)	181,907
Total capital assets not being depreciated	716,942	90,264	(698)	(75,375)	731,133
Capital assets being depreciated					
Buildings and improvements	852,565	-	(629)	118	852,054
Container cranes	148,697	-	-	-	148,697
Infrastructure	1,871,579	-	(44)	72,416	1,943,951
Software	13,676	-	-	62	13,738
Other equipment	93,464	2,031	(379)	2,779	97,895
Total capital assets being depreciated	2,979,981	2,031	(1,052)	75,375	3,056,335
Less accumulated depreciation for					
Buildings and improvements	(548,285)	(23,147)	53	-	(571,379)
Container cranes	(93,997)	(4,823)	-	-	(98,820)
Infrastructure	(775,369)	(68,868)	(53)	-	(844,290)
Software	(5,470)	(1,367)	-	-	(6,837)
Other equipment	(61,391)	(5,872)	141	-	(67,122)
Total accumulated depreciation	(1,484,512)	(104,077)	141	-	(1,588,448)
Total being depreciated, net	1,495,469	(102,046)	(911)	75,375	1,467,887
Total capital assets, net	\$ 2,212,411	\$ (11,782)	\$ (1,609)	\$ -	\$ 2,199,020

**Port of Oakland**  
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**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**Changes in Capital Assets (continued)**

A summary of changes in capital assets for the year ended June 30, 2015, is as follows (in thousands):

	<b>Beginning Balance July 1, 2014</b>	<b>Additions</b>	<b>Adjustments and Retirements</b>	<b>Transfers</b>	<b>Ending Balance June 30, 2015</b>
Capital assets not being depreciated					
Land	\$ 523,283	\$ -	\$ -	\$ 56	\$ 523,339
Intangibles (noise easements and air rights)	25,852	-	-	-	25,852
Construction in progress	200,709	117,003	-	(149,961)	167,751
Total capital assets not being depreciated	749,844	117,003	-	(149,905)	716,942
Capital assets being depreciated					
Buildings and improvements	851,650	-	-	915	852,565
Container cranes	153,417	-	(4,720)	-	148,697
Infrastructure	1,730,806	-	-	140,773	1,871,579
Software	13,391	-	-	285	13,676
Other equipment	86,039	452	(959)	7,932	93,464
Total capital assets being depreciated	2,835,303	452	(5,679)	149,905	2,979,981
Less accumulated depreciation for					
Buildings and improvements	(523,071)	(25,214)	-	-	(548,285)
Container cranes	(93,894)	(4,823)	4,720	-	(93,997)
Infrastructure	(710,351)	(65,018)	-	-	(775,369)
Software	(4,102)	(1,368)	-	-	(5,470)
Other equipment	(56,955)	(5,336)	900	-	(61,391)
Total accumulated depreciation	(1,388,373)	(101,759)	5,620	-	(1,484,512)
Total being depreciated, net	1,446,930	(101,307)	(59)	149,905	1,495,469
Total capital assets, net	\$ 2,196,774	\$ 15,696	\$ (59)	\$ -	\$ 2,212,411

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**5. Debt**

Long-term debt consists of the following at June 30, 2016 and 2015 (in thousands):

	Interest Rate	Fiscal Maturity Year	Original Amount	Beginning Balance July 1, 2015	Additions	Reductions <sup>2</sup>	Ending Balance June 30, 2016	Principal Due Within One Year
<b>Senior Lien Bonds</b>								
2011 Revenue Bonds Series O	3.375-5.125%	2031	\$ 345,730	\$ 312,765	\$ -	\$ 14,440	\$ 298,325	\$ 11,360
2012 Revenue Bonds Series P	3.00-5.00	2033	380,315	369,520	-	525	368,995	-
Total Senior Lien Bonds			726,045	682,285	-	14,965	667,320	11,360
<b>Dept. of Boating and Waterway (DBW) Loan</b>								
Small Craft Harbor Revenue Bonds, Series 1993	4.50	2030	7,176	4,914	-	236	4,678	247
<b>Intermediate Lien Bonds</b>								
2007 Revenue Bonds Series A	4.00-5.00	2030	242,075	158,685	-	2,715	155,970	2,905
2007 Revenue Bonds Series B	4.00-5.00	2030	182,450	155,540	-	17,625	137,915	18,055
2007 Revenue Bonds Series C	5.00	2020	78,565	78,565	-	11,220	67,345	16,665
Total Intermediate Lien Bonds			503,090	392,790	-	31,560	361,230	37,625
<b>Commercial Paper<sup>1</sup></b>								
Series A, B, C Notes	0.07-0.47	2017	N/A	-	38,176	-	38,176	7
Series D, E, F Notes	0.02-0.49	2017	N/A	74,398	-	27,983	46,415	-
Total Commercial Paper				74,398	38,176	27,983	84,591	7
Sub-Total				1,154,387	38,176	74,744	1,117,819	49,239
Net unamortized bond premium (discount), net				50,390	(52)	5,971	44,367	5,583
Total Debt				1,204,777	38,124	80,715	1,162,186	\$ 54,822
Current maturities of long-term debt				(52,257)	(54,822)	(52,257)	(54,822)	
Total Debt - long-term portion				\$ 1,152,520	\$ (16,698)	\$ 28,458	\$ 1,107,364	

<sup>1</sup>As of June 30, 2016, the Port has capacity to issue an aggregate principal amount of commercial paper notes up to \$200 million.

<sup>2</sup>Includes purchase of \$525,000 of 2012 Revenue Bonds Series P in June 2016.

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**Debt (Continued)**

Long-term debt consists of the following at June 30, 2015 and 2014 (in thousands):

	Interest Rate	Fiscal Maturity Year	Original Amount	Beginning Balance July 1, 2014	Additions	Reductions <sup>2</sup>	Ending Balance June 30, 2015	Principal Due Within One Year
<b>Senior Lien Bonds</b>								
2011 Revenue Bonds Series O	2.25-5.125%	2031	\$ 345,730	\$ 321,525	\$ -	\$ 8,760	\$ 312,765	\$ 14,440
2012 Revenue Bonds Series P	3.00-5.00	2033	380,315	377,050	-	7,530	369,520	-
Total Senior Lien Bonds			726,045	698,575	-	16,290	682,285	14,440
<b>Dept. of Boating and Waterway (DBW) Loan</b>								
Small Craft Harbor Revenue Bonds, Series 1993	4.50	2030	7,176	5,140	-	226	4,914	236
<b>Intermediate Lien Bonds</b>								
2007 Revenue Bonds Series A	4.00-5.00	2030	242,075	173,870	-	15,185	158,685	2,715
2007 Revenue Bonds Series B	4.00-5.00	2030	182,450	167,880	-	12,340	155,540	17,625
2007 Revenue Bonds Series C	5.00	2020	78,565	78,565	-	-	78,565	11,220
Total Intermediate Lien Bonds			503,090	420,315	-	27,525	392,790	31,560
<b>Commercial Paper<sup>1</sup></b>								
Series A, B, C Notes	0.08-0.09	2016	N/A	62,398	-	62,398	-	-
Series D, E, F Notes	0.05-0.15	2016	N/A	15,000	59,398	-	74,398	4
Total Commercial Paper				77,398	59,398	62,398	74,398	4
Sub-Total				1,201,428	59,398	106,439	1,154,387	46,240
Net unamortized bond premium and discount				56,837	(22)	6,425	50,390	6,017
Total Debt				1,258,265	59,376	112,864	1,204,777	\$ 52,257
Current maturities of long-term debt				(49,919)	(52,257)	(49,919)	(52,257)	
Total Debt - long-term portion				\$ 1,208,346	\$ 7,119	\$ 62,945	\$ 1,152,520	

<sup>1</sup> As of June 30, 2015, the Port has capacity to issue an aggregate principal amount of commercial paper notes up to \$200 million.

<sup>2</sup> Includes purchase of \$570,000 of 2012 Revenue Bonds Series P in June 2015.

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**Debt Service**

The Port's long-term debt and final maturity is identified in the schedules at the beginning of Note 5 and consists of tax-exempt bonds, short-term commercial paper notes and a loan from the California Department of Boating and Waterways. All of the Port's outstanding bonds, loans and commercial paper notes have been issued to finance or refinance capital improvements to the Port's aviation, maritime and commercial real estate infrastructure. The majority of the Port's outstanding bonds are revenue bonds, which are secured by Pledged Revenues of the Port. Pledged Revenues are substantially all revenues and other cash receipts of the Port, including, without limitation, amounts held in the Port Revenue Fund with the City, but excluding amounts received from certain taxes, certain insurance proceeds, special facilities revenues, and certain other gifts, fees, and grants that are restricted by their terms to purposes inconsistent with the payment of debt service. In fiscal year 2016 pledged revenues amounted to \$340,139,000.

Pledged Revenues do not include cash received from PFCs or CFCs unless projects included in a financing are determined to be PFC or CFC eligible and bond proceeds are expended on such eligible projects and the Port elects to pledge PFCs or CFCs as supplemental security to such applicable bonds. Currently, the Port has no bonds for which PFCs or CFCs are pledged.

The Port did not capitalize any interest cost in fiscal year 2016 nor in 2015.

The Port's required debt service payments on its Senior Lien Bonds and Intermediate Lien Bonds are due each May 1 and November 1 through May 1, 2033. The California Department of Boating and Waterways loan is due each August 1 through August 1, 2029. Commercial Paper has been classified as long-term debt because the Port has the intent and ability to continue to refinance this debt. The Port's required debt service payment for the outstanding long-term debt for years ending June 30 are as follows (in thousands):

<b>Fiscal Year Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 77,429	\$ 55,841	\$ 133,270
2018	81,405	51,814	133,219
2019	85,597	46,798	132,395
2020	54,752	42,331	97,083
2021	56,415	40,032	96,447
2022 - 2026	332,684	154,664	487,348
2027 - 2031	357,522	66,769	424,291
2032 - 2033	72,015	5,179	77,194
<b>Total</b>	<b>\$ 1,117,819</b>	<b>\$ 463,428</b>	<b>\$ 1,581,247</b>

Although the Port intends to refinance the Commercial Paper debt in the future, for purposes of this schedule, Commercial Paper debt is amortized over the fiscal years ending 2017-2020 pursuant to the "Term Loan" provisions of the Commercial Paper Reimbursement Agreements.

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**Types of Debt and Priority of Payment**

***Senior Lien Bonds***

2011 Series O and 2012 Series P (collectively, the Senior Lien Bonds) were issued under the Senior Trust Indenture and are paid from Pledged Revenues first. As long as any Senior Lien Bonds remain outstanding, the Port has covenanted to collect rates, tolls, fees, rentals and charges so that Pledged Revenues in each fiscal year will be sufficient to pay all of the following amounts: (i) the sum of principal and interest on the outstanding Senior Lien Bonds; (ii) all other payments required for compliance with terms of the Senior Trust Indenture including, but not limited to, required deposits to any Reserve Fund; (iii) all other payments necessary to meet ongoing legal obligations to be paid from Pledged Revenues; and (iv) operation and maintenance expenses of the Port. In addition, payment of principal and interest on the Senior Lien Bonds when due is secured by a reserve fund held by the trustee and invested in U.S. Treasury Notes.

The Port has also covenanted in the Senior Trust Indenture that Net Pledged Revenue (Revenues less the Operation and Maintenance Expenses) will be equal to at least 125% of actual debt service for the Senior Lien Bonds (Senior Lien Debt Service Coverage Ratio).

***California Department of Boating and Waterways (DBW) Loan***

The DBW Loan is subordinate to the Senior Lien Bonds but superior to the Intermediate Lien Bonds and the Port's Commercial Paper Notes with respect to the Pledged Revenues. The Port turned over the operation of its marina, financed, in part, with DBW Loans, to a private company through a fifty-year capital lease in May 2004. As of June 30, 2016, only one DBW Loan remained outstanding with a balance of \$4,678,000.

***Intermediate Lien Bonds***

The 2007 Series A, Series B and Series C Bonds (collectively, the Intermediate Lien Bonds) issued under the Intermediate Trust Indenture are next in payment priority. The Intermediate Lien Bonds are paid from the Intermediate Lien Pledged Revenues. The Intermediate Lien Pledged Revenues are the Pledged Revenues after payment first, of all amounts payable for any Senior Lien Bonds and second, any debt service requirements payable on the DBW Loan. Payment of principal and interest on the Intermediate Lien Bonds when due is secured by a debt service reserve surety policy, as well as being insured by municipal bond insurance policies.

The Port covenanted in the Intermediate Trust Indenture that Net Pledged Revenues will be equal to at least 110% of the actual debt service becoming due and payable on the combined Intermediate Lien Bonds, Senior Lien Bonds, and DBW Loan (Intermediate Lien Debt Service Coverage Ratio).

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***Commercial Paper Notes***

Commercial Paper Notes (CP Notes) have the lowest payment priority. The Board authorized a \$150,000,000 Commercial Paper program in 1998 and a further \$150,000,000 was authorized in 1999. The maximum maturity of the CP Notes is 270 days and the maximum interest rate is 12%. The Port has classified the CP Notes as long term debt as the Port intends and has the ability to reissue CP Notes until the expiration of the two irrevocable Letters of Credit (LOC), discussed below. Interest income paid to the holders of the CP Notes may fall under one of three tax treatments: tax-exempt Alternative Minimum Tax (AMT), tax-exempt non-AMT and taxable.

On May 2, 2016, the Port amended its LOC with JPMorgan Chase Bank National Association (JPMorgan), reducing its maximum stated amount of \$108,876,713 (principal of \$100,000,000 and interest of \$8,876,713) to \$54,438,357 (principal of \$50,000,000 and interest of \$4,438,357). The expiration date of the letter of credit was also extended for one year, from June 30, 2016 to June 30, 2017. On June 13, 2016, the Port substituted its then-outstanding Wells Fargo Bank National Association LOC, with a new LOC supported by Bank of America National Association (BANA). The maximum stated amount of this LOC is \$163,315,069 (principal of \$150,000,000 and interest of \$13,315,069) and expires on June 30, 2019. As of June 30, 2016, the Port has capacity based on available credit to issue an aggregate principal amount of CP Notes up to \$200,000,000.

As of June 30, 2016, the outstanding balance of CP Notes issued under the BANA LOC is \$38,176,000, while the outstanding balance of CP Notes issued under the JPMorgan LOC is \$46,415,000.

The Port covenants in the LOC and Reimbursement Agreements with BANA and JPMorgan that the Intermediate Lien Debt Service Coverage Ratio will equal to at least 110%.

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***Priority of Payment***

The following are the priority of payment tables (in thousands):

	<b>Maturity Date</b>	<b>Total Debt Service to Maturity</b>	<b>FY 2016 Debt Principal and Interest</b>	<b>FY 2016 Net Pledged Revenues**</b>
<b>Total Net Pledged Revenues</b>				\$ 158,982
Senior Lien Bonds:				
2011 Revenue Bonds Series O	5/1/2031	\$ 433,797	\$ 30,135	
2012 Revenue Bonds Series P	5/1/2033	576,065	18,056	
Subtotal Senior Lien Bonds		<u>1,009,862</u>	<u>48,191</u>	<u>(48,191)</u>
<b>Net Pledged Revenues Remaining after Sr. Lien</b>				110,791
Dept. of Boating and Waterways Loan	8/1/2029	<u>6,406</u>	<u>457</u>	<u>(457)</u>
<b>Net Pledged Revenues Remaining after DBW</b>				110,334
Intermediate Lien Bonds:				
2007 Series A	11/1/2029	223,490	10,576	
2007 Series B	11/1/2029	171,582	24,785	
2007 Series C	11/1/2019	73,862	14,868	
Subtotal Intermediate Lien Bonds		<u>468,934</u>	<u>50,229</u>	<u>(50,229)</u>
<b>Net Pledged Revenues Remaining after Int. Lien</b>				60,105
Commercial Paper Notes*		<u>96,045</u>	<u>4,145</u>	<u>(4,145)</u>
<b>Net Pledged Revenues Remaining after CP Notes</b>				\$ <u>55,960</u>
<b>Total</b>		\$ <u>1,581,247</u>	\$ <u>103,022</u>	

\* The Total Debt Service to Maturity for Commercial Paper includes principal (\$84.6 million) and interest (\$11.4 million) on outstanding Commercial Paper debt pursuant to the "Term Loan" provision of the Commercial Paper Reimbursement Agreements. Of the \$84.6 million of Commercial Paper Notes outstanding, \$23.2 million are eligible to be financed from Passenger Facility Charges.

\*\* Net Pledged Revenues are Revenues less Operation and Maintenance Expenses plus Interest Earned (not including interest earned on PFC and CFC funds, \$13,000 and \$34,000 respectively).

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***Priority of Payment (continued)***

	<b>Maturity Date</b>	<b>Total Debt Service to Maturity</b>	<b>FY 2015 Debt Principal and Interest</b>	<b>FY 2015 Net Pledged Revenues**</b>
<b>Total Net Pledged Revenues</b>				\$ 164,665
Senior Lien Bonds:				
2011 Revenue Bonds Series O	5/1/2031	\$ 463,932	\$ 24,892	
2012 Revenue Bonds Series P	5/1/2033	595,037	25,254	
Subtotal Senior Lien Bonds		<u>1,058,969</u>	<u>50,146</u>	(50,146)
<b>Net Pledged Revenues Remaining after Sr. Lien</b>				114,519
Dept. of Boating and Waterways Loan	8/1/2029	<u>6,863</u>	<u>457</u>	<u>(457)</u>
<b>Net Pledged Revenues Remaining after DBW</b>				114,062
Intermediate Lien Bonds:				
2007 Series A	11/1/2029	234,065	23,491	
2007 Series B	11/1/2029	196,368	20,170	
2007 Series C	11/1/2019	88,730	3,928	
Subtotal Intermediate Lien Bonds		<u>519,163</u>	<u>47,589</u>	(47,589)
<b>Net Pledged Revenues Remaining after Int. Lien</b>				66,473
Commercial Paper Notes*		<u>84,752</u>	<u>3,092</u>	<u>(3,092)</u>
<b>Net Pledged Revenues Remaining after CP Notes</b>				\$ <u>63,381</u>
<b>Total</b>		\$ <u>1,669,747</u>	\$ <u>101,284</u>	

\* The Total Debt Service to Maturity for Commercial Paper includes principal and interest on outstanding Commercial Paper debt pursuant to the "Term Loan" provision of the Commercial Paper Reimbursement Agreements.

\*\* Net Pledged Revenues (as restated) are Revenues less Operation and Maintenance Expenses plus Interest Earned (not including interest earned on PFC and CFC funds, \$18,000 and \$24,000 respectively).

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**Bond Premium (Discount)**

The Port amortizes the original issue discount or premium over the life of each bond issue. The unamortized amount for each Port issue is as follows (in thousands):

<b>Bond Issue</b>	<b>2016 (Discount) Premium</b>	<b>2015 (Discount) Premium</b>
Senior Lien Bonds:		
2011 Series O	\$ 2,936	\$ 4,157
2012 Series P	35,059	38,124
Subtotal Senior Lien Bonds	37,995	42,281
Intermediate Lien Bonds:		
2007 Series A	2,674	2,999
2007 Series B	2,719	3,501
2007 Series C	984	1,610
Subtotal Intermediate Lien Bonds	6,377	8,110
Commercial Paper	(5)	(1)
Total	\$ 44,367	\$ 50,390

**6. Environmental and Other Liabilities**

Changes in environmental and other liabilities for the years ended June 30, 2016 and 2015 are as follows (in thousands):

	<b>Beginning Balance July 1, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2016</b>	<b>Amounts Due Within One Year</b>
Accrued vacation, sick leave and compensatory time	\$ 6,594	\$ 1,589	\$ (1,672)	\$ 6,511	\$ 5,586
Pollution liability (Note 13)	11,700	13,604	(10,242)	15,062	3,023
Workers' compensation (Note 14)	12,661	876	(1,288)	12,249	1,290
Lease terminal loss contingency (Note 15)	-	22,337	(29)	22,308	5,954
Other long-term liabilities	1,834	899	(133)	2,600	-
Total	\$ 32,789	\$ 39,305	\$ (13,364)	\$ 58,730	\$ 15,853

	<b>Beginning Balance July 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2015</b>	<b>Amounts Due Within One Year</b>
Accrued vacation, sick leave and compensatory time	\$ 7,072	\$ 4,902	\$ (5,380)	\$ 6,594	\$ 5,596
Pollution liability (Note 13)	13,473	6,488	(8,261)	11,700	3,452
Workers' compensation (Note 14)	11,182	2,792	(1,313)	12,661	1,500
Other long-term liabilities	1,307	630	(103)	1,834	-
Total	\$ 33,034	\$ 14,812	\$ (15,057)	\$ 32,789	\$ 10,548

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**7. Leases**

A major portion of the Port's capital assets are leased to others. Leased assets include maritime facilities, aviation facilities, office and commercial space, and land. The majority of the Port's leases are classified as operating leases. The leases generally provide for minimum rentals with percentage rent contingent on business sales or activity. Certain maritime facilities are leased under agreements that provide the tenants with preferential, but nonexclusive, use of the facilities.

A summary of revenues from long-term leases for years ended June 30 is as follows (in thousands):

	<u>2016</u>	<u>2015</u>
Minimum non-cancelable rentals, including preferential assignments	\$ 166,759	\$ 172,471
Contingent rentals in excess of minimums	15,054	17,006
	<u>\$ 181,813</u>	<u>\$ 189,477</u>

The Port and Outer Harbor Terminal, LLC (formerly Ports America Outer Harbor Terminal, LLC), a private company, entered into a long-term concession and lease agreement on January 1, 2010, for the operation of Berths 20-24 for 50 years. A \$60 million upfront fee was paid to the Port in fiscal year 2010 which was being amortized over the life of the lease. In February 2016, Outer Harbor Terminal, LLC filed for Chapter 11 bankruptcy protection and subsequently announced their intent to cease operations at the Port. The Port terminated its long-term concession and lease agreement with Outer Harbor Terminal, LLC at the end of March 2016. These events resulted in the immediate recognition of the unamortized balance of the upfront fee, approximately \$46,977,000 which was recognized as other non-operating income. Refer to Note 15 Outer Harbor Terminal Closure for additional details.

Minimum future rental revenues for years ending June 30 under non-cancelable operating leases having an initial term in excess of one year are as follows (in thousands):

2017	\$ 140,312
2018	114,258
2019	86,820
2020	85,470
2021	85,806
2022-2026	195,026
2027-2031	114,463
2032-2036	98,283
2037-2041	28,864
2042-2046	13,174
2047-2051	10,558
Thereafter	34,760
	<u>\$ 1,007,794</u>

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**Leases (continued)**

The Port turned over the operation of its marina to a private company through a long-term financing lease and operating agreement on May 1, 2004. Minimum future lease payments to be received, which is a component of unearned revenue, for years ending June 30 are as follows (in thousands):

2017	\$	426
2018		438
2019		452
2020		465
2021		479
2022-2026		2,620
2027-2031		3,037
2031-2036		3,521
2037-2041		4,082
2042-2046		4,732
2047-2051		5,486
Thereafter		3,485
	\$	<u>29,223</u>

The capital assets leased to others at June 30 consist of the following (in thousands):

	<u>2016</u>	<u>2015</u>
Land	\$ 330,158	\$ 413,820
Container cranes	148,697	148,697
Buildings and improvements	188,134	206,336
Infrastructure	<u>988,456</u>	<u>1,095,378</u>
	1,655,445	1,864,231
Less accumulated depreciation	<u>(678,561)</u>	<u>(706,439)</u>
Net capital assets, on lease	<u>\$ 976,884</u>	<u>\$ 1,157,792</u>

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**8. Unearned Revenue**

Unearned revenue consists primarily of an upfront fee from a terminal operating lease; a long term financing lease for the marina operations; early redemption of special facilities bonds; prepayment of bond debt service for airline fuel facility and prepaid tenant rent.

Changes in unearned revenue for the years ended June 30, 2016 and 2015 are as follows (in thousands):

	<b>Beginning Balance July 1, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2016</b>	<b>Amounts Due Within One Year</b>
Ports America Outer Harbor upfront fee	\$ 47,782	\$ -	(47,782)	\$ -	\$ -
Marina capital lease unearned interest revenue	19,546	-	(503)	19,043	503
92A Special Facility bond redemptions	8,826	-	(2,522)	6,304	2,522
Oakland Fuel Facilities Corporation	8,406	150	(580)	7,976	580
Unearned tenant rent	8,157	6,149	(6,111)	8,195	6,365
Other unearned revenue	1,188	-	(159)	1,029	158
<b>Total</b>	<b>\$ 93,905</b>	<b>\$ 6,299</b>	<b>\$ (57,657)</b>	<b>\$ 42,547</b>	<b>\$ 10,128</b>

	<b>Beginning Balance July 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance June 30, 2015</b>	<b>Amounts Due Within One Year</b>
Ports America Outer Harbor upfront fee	\$ 48,856	\$ -	(1,074)	\$ 47,782	\$ 1,074
Marina capital lease unearned interest revenue	20,049	-	(503)	19,546	503
92A Special Facility bond redemptions	11,348	-	(2,522)	8,826	2,522
Oakland Fuel Facilities Corporation	8,836	150	(580)	8,406	580
Unearned tenant rent	9,645	5,895	(7,383)	8,157	6,111
Other unearned revenue	1,346	-	(158)	1,188	158
<b>Total</b>	<b>\$ 100,080</b>	<b>\$ 6,045</b>	<b>\$ (12,220)</b>	<b>\$ 93,905</b>	<b>\$ 10,948</b>

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**9. Retirement Plans**

**CalPERS Miscellaneous Unit**

***Plan Description***

All full-time and certain other qualifying employees of the Port are eligible to participate in the CalPERS as members of the City of Oakland's Miscellaneous Unit of CalPERS (Miscellaneous Plan). The Miscellaneous Plan is an agent multiple-employer defined benefit pension plan. Benefit provisions and all other requirements are established by State statute and City ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the annual financial report are available on the CALPERS website at [www.CalPERS.ca.gov](http://www.CalPERS.ca.gov) under Forms and Publications or may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

A separate report for the City's Miscellaneous Plan within CalPERS is not available. As a department of the City, the Port shares benefit costs with the City. The Port presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City.

***Benefits Provided***

The Miscellaneous Plan provides service retirement, disability retirement, and death benefits based on the employee's years of service, age at retirement and final compensation. An employee becomes eligible for service retirement upon retirement age and with at least 5 years of CalPERS credited service. Final compensation is the monthly average of the employee's highest one-year or three-year consecutive months' full-time equivalent salary. The service retirement benefit is a monthly allowance for life equal to the product of the benefit factor, years of service and final compensation. The benefit factor varies based on the employee's date of hire and age at retirement.

The Miscellaneous Plan's provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<b>Hire date</b>		
	<b>Prior to 6/9/2012</b>	<b>6/9/2012 through 12/31/12</b>	<b>On or After 1/1/2013*</b>
Benefit formula	2.7% @ 55	2.5% @ 55	2.0% @ 62
Retirement age	50-55	50-55	52-67
Monthly benefits, as a % of eligible compensation	2.0%-2.7%	2.0%-2.5%	1.0%-2.5%
Required employee contribution rates	8.00%	8.00%	6.75%-8.00%
Required employer contribution rates	32.928%	32.928%	31.678%-32.928%

\*For "new members" as defined by the Public Employees' Pension Reform Act (PEPRA)

Cost-of-living adjustments are paid the second calendar year of retirement and every year thereafter up to a maximum of 2% per year.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 5 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties.

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***Contributions***

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. The total Miscellaneous Plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. The City and the Port are required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

During the years ended June 30, 2016 and 2015, the Port paid contributions of \$15,989,000 and \$14,735,000 respectively to the City's Miscellaneous Plan.

***CalPERS Safety Unit – Special Agreement with the City of Oakland***

During the period from July 1, 1976, through January 17, 1998 (employment period), the Port appointed certain employees to positions in the classifications of Airport Servicemen and Airport Operations Supervisors. The Port was and has always been the employer that directly appointed, retained, employed and compensated the personnel in these positions.

As result of a decision by CalPERS' Board of Administration on April 15, 1998, employees appointed to positions in the classifications of Airport Servicemen and Airport Operations Supervisors were reclassified from the Miscellaneous Unit member status in CalPERS to Safety Unit member status, effective retroactively to the later of either the date of their respective employment in such classifications or July 1, 1976.

The decision to reclassify employees to safety member status resulted in an additional net cost to provide retirement benefits earned during the employment period. CalPERS' actuary estimated that the present value of this net cost (including subsequent actual experience through June 30, 2000, and projected experience through June 30, 2002) was \$5,915,000.

The Port entered into an agreement with the City for the payment of this net cost by the Port directly to CalPERS. The agreement provides for the Port to make payments over 20 years in annual installments, with interest at 4.34% and adjusted for cost of living at a rate of 3.75%. Under this agreement the Port's obligation will not fluctuate based on the recognition of market gains or losses, changes in the actuarial assumptions, or experiences that differ from the actuary projections. The Port's obligation will remain fixed until paid in full.

For the years ended June 30, 2016 and 2015, the Port paid contributions of \$397,000 and \$342,000 respectively, for the Safety Unit obligation.

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**Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For fiscal years ended June 30, 2016 and 2015, the Port reported total net pension liability as follows (in thousands):

	<b>2016</b>	<b>2015</b>
City's Miscellaneous plan - proportion share	\$ 172,915	\$ 160,287
Safety plan - remaining obligation	4,289	4,631
Total net pension liability	<u>\$ 177,204</u>	<u>\$ 164,918</u>

The City's Miscellaneous Plan's net pension liability was measured as of the measurement date listed in the table below for the respective fiscal year. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the valuation dated listed in the table below and rolled forward to the measurement date using standard update procedures. The Port's proportionate share of the City's Miscellaneous Plan was determined based on the Port's employer contributions divided by the total employer contributions for the respective measurement period.

	<b>2016</b>	<b>2015</b>
Measurement date	6/30/2015	6/30/2014
Valuation date	6/30/2014	6/30/2013
Measurement period	7/1/14-6/30/15	7/1/13-6/30/14
Proportionate share	24.80%	24.86%

For the years ended June 30, 2016 and 2015, the Port recognized pension expense including amortization of deferred outflow/inflow related pension items of \$9,788,000 and \$11,729,000, respectively. At June 30, 2016 and 2015, the Port reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in assumptions	\$ -	\$ 6,352	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	17,904	21,853	-	29,137
Change in proportionate share	-	-	-	-
Net differences between expected and actual experience	-	1,262	-	-
Pension contributions subsequent to the measurement date	16,386	-	15,077	-
	<u>\$ 34,290</u>	<u>\$ 29,467</u>	<u>\$ 15,077</u>	<u>\$ 29,137</u>

The pension contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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**Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)**

Other amounts reported as deferred inflows of resources, will be amortized annually and recognized as an increase or (reduction) to pension expense, for the years ending June 30 as follows (in thousands):

2017	\$ (6,816)
2018	(6,415)
2019	(2,808)
2020	4,476
	<u>\$ (11,563)</u>

**Actuarial Methods and Assumptions**

For fiscal years ended June 30, 2016 and 2015, the pension liability was determined by rolling forward the total pension liability from the valuation date to the measurement date. The total pension liabilities were based on the following actuarial methods and assumptions for each measurement date:

	<b>2016</b>	<b>2015</b>
Measurement date	6/30/2015	6/30/2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.50% <sup>3</sup>
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment and Administrative Expenses; includes inflation	7.50% Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table	Based on the 2010 CalPERS Experience Study from 1997 to 2007 <sup>1</sup>	Derived using CalPERS' Membership Data <sup>2</sup>
Post Retirement Benefit Increase	Contract cost of living adjustment up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter	Contract cost of living adjustment up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

<sup>1</sup> Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

<sup>2</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

<sup>3</sup> The discount rate used in 2015 was net of administrative expenses.

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***Actuarial Methods and Assumptions (continued)***

All other actuarial assumption used in the June 30, 2014 and 2013 valuations were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS website under Form and Publications.

***Discount Rate***

The discount rates used to measure the total pension liability as of June 30, 2016 and 2015 was 7.65% and 7.50%, respectively. To determine whether the municipal bond rate should be used in the calculation of a discount rate, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on CalPERS testing, none of the tested plans run out of assets. Therefore, CalPERS determined that the current discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. In fiscal year 2015, the 7.50% investment return assumption used in the accounting valuation was net of administrative expenses. Administrative expenses are assumed to be 15 basis points. Using this lower discount rate resulted in a slightly higher Total Pension Liability and Net Pension Liability. In fiscal year 2015, this difference was deemed immaterial to the agent multiple-employer plan. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference. In fiscal year 2016, the investment return assumption of 7.65% is without reduction of pension plan administrative expense.

The long term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of the benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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***Discount Rate (continued)***

The table below reflects long-term expected real rate of return, by asset class, used for the June 30, 2014 valuation. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS board effective on July 1, 2014.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1-10<sup>(1)</sup></b>	<b>Real Return Years 11+<sup>(2)</sup></b>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100%		

<sup>1</sup>An expected inflation of 2.5% used for this period.

<sup>2</sup>An expected inflation of 3.0% used for this period.

The table below reflects long-term expected real rate of return, net of administrative expenses, by asset class used for the June 30, 2013 valuation. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<b>Asset Class</b>	<b>New Strategic Allocation</b>	<b>Real Return Years 1-10<sup>(1)</sup></b>	<b>Real Return Years 11+<sup>(2)</sup></b>
Global Equity	47.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	12.0	6.83	6.95
Real Estate	11.0	4.50	5.13
Infrastructure and Forestland	3.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)
Total	100%		

<sup>1</sup>An expected inflation of 2.5% used for this period.

<sup>2</sup>An expected inflation of 3.0% used for this period.

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***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the Port's proportionate share of the net pension liability as of the June 30, 2015 measurement date calculated using the discount rate of 7.65%, as well as what the Port's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.65%) or 1% higher (8.65%) than the current rate (in thousands):

	<b>1% Decrease (6.65%)</b>	<b>Current Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
Port's proportionate share of the City's Miscellaneous plan net pension liability	\$244,071	\$172,915	\$111,029

**10. Other Postemployment Benefits**

**Plan Description**

The Port contributes to the California Employer's Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit postemployment healthcare plan administered by CalPERS. The CERBT is an Internal Revenue Code Section 115 trust and an investment vehicle that can be used by all California public employers to prefund future retiree health and Other Postemployment Benefits (OPEB) costs.

The Port's Retiree Health Plan allows eligible retirees and their dependents to receive employer paid medical insurance benefits through CalPERS, subject to certain limitations described below. Additionally, through the Port's Retiree Health Plan, employees hired before October 1, 2009 (before January 1, 2013 for members of the Services Employees International Union (SEIU) and International Brotherhood of Electrical Workers (IBEW)) are eligible to receive dental and vision benefits.

Prior to 2011, eligible retirees must have attained the age of fifty or over at the time of retirement, have five or more years of CalPERS service, and must be eligible to receive PERS retirement benefits. On July 21, 2011, the Port adopted resolutions that established a Health Benefit Vesting Requirement for employees hired on or after September 1, 2011 (on or after April 1, 2013 for members of SEIU and IBEW). The vesting schedule does not apply to employees that are granted a disability retirement.

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**Plan Description (continued)**

Under the adopted vesting schedule, the Port shall pay a percentage of retiree medical coverage for a retiree and his or her eligible dependents based on the provisions of Section 22893 of the California Government Code. Under these rules, a retiree must have at least 10 years of credited service with a CalPERS agency, at least 5 of which are with the City/Port. The Port will pay a percentage of employer contributions for the Retiree based upon the following:

Years of Credited Service (at least 5 of which are with the City/Port)	% of Employer Contributions
10	50
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90
19	95
20	100

**Funding Policy**

Benefit provisions are established and are amended through negotiations between the Port and the various bargaining units during each bargaining period. The Port pays a portion of retiree benefit expenses on a pay-as-you-go basis to third parties, outside of the CERBT fund, and funds the remaining annual required contribution (ARC) to the CERBT fund, prior to the fiscal year end.

As of June 30, 2016, there were approximately 562 employees who had retired from the Port and were participating in the Port's Retiree Health Plan. During fiscal year ended June 30, 2016, the Port contributed \$6,400,000 to the CERBT and made payments of \$7,381,000 on behalf of eligible retirees to third parties outside of the CERBT fund.

As of June 30, 2015, there were approximately 541 employees who had retired from the Port and were participating in the Retiree Health Plan. During fiscal year ended June 30, 2015, the Port contributed \$5,800,000 to the CERBT and made payments of \$7,145,000 on behalf of eligible retirees to third parties outside of the CERBT fund.

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**Annual OPEB Cost and Net OPEB Obligation**

The Port's annual OPEB cost is equal to (a) ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45, plus (b) one year's interest on the beginning balance of the net OPEB obligation, and minus (c) an adjustment to the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over a "closed" period of 30 years.

The following table shows the components of the Port's annual OPEB cost for the year, the amount contributed to the CERBT and changes in the Port's net OPEB obligation as of June 30 (in thousands):

	<u>2016</u>	<u>2015</u>
Annual required contribution	\$ 13,725	\$ 12,844
Interest on prior year net OPEB obligation	717	729
Adjustment to annual required contribution	<u>(789)</u>	<u>(793)</u>
Annual OPEB Cost	13,653	12,780
Contribution made	<u>(13,781)</u>	<u>(12,945)</u>
Increase (decrease) in net OPEB obligation	(128)	(165)
Net OPEB obligation - beginning of year	<u>10,249</u>	<u>10,414</u>
Net OPEB obligation - end of year	<u>\$ 10,121</u>	<u>\$ 10,249</u>

The Port's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior two years are as follows (in thousands):

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 12,789	100.30%	\$ 10,414
6/30/2015	\$ 12,780	101.29%	\$ 10,249
6/30/2016	\$ 13,653	100.94%	\$ 10,121

**Funding Status and Funding Progress**

The table below indicates the funded status of the Port's OPEB plan as of June 30, 2015, the most recent actuarial valuation date (in thousands).

Actuarial Accrued Liability (AAL)	\$ 157,351
Actuarial Value of Plan Assets	<u>(47,870)</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 109,481</u>
Funded Ratio (actuarial value of plan assets/AAL)	30.4%
Annual Covered Payroll (active plan members)	\$ 50,093
UAAL as a Percentage of Annual Covered Payroll	219%

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**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The actuarial cost method used for determining the benefit obligations of the Port is the Projected Unit Credit Cost Method. Under the principles of this method, the actuarial present value of the projected benefits is the value of benefits expected to be paid for active and retired employees. The AAL is the present value of benefits attributed to employee service rendered prior to the valuation date. The AAL equals the present value of benefits multiplied by a fraction equal to service date over service at expected retirement. The ARC was based on an actuarial valuation of the Port's plan as of June 30, 2015 for fiscal year 2016 and as of June 30, 2013 for fiscal year 2015. In determining the ARC, the UAAL was amortized as a level dollar amount over 30 years on a "closed" basis beginning June 30, 2013. There are 28 years remaining as of July 1, 2015.

Actuarial assumptions used for the valuation of the Port's plan include a discount rate, which is based on the CERBT expected rate of return for the plan assets, and annual healthcare cost trends, which is based on the "Getzen" model published by the Society of Actuaries. The June 30, 2015 and 2013 actuarial valuations used a discount rate of 7.0%, annual healthcare costs were assumed to increase at rates ranging from 2.75% to 8.25%, and a general inflation rate of 2.5% was used.

The schedules presented as required supplementary information following the notes to the financial statements, present multiyear trend information. The Schedule of Funding Progress - Other Postemployment Benefits presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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**11. Agreements with City of Oakland**

The Port has entered into agreements with the City for provisions of various services such as aircraft rescue and firefighting (ARFF), Special Services, General Services, and Lake Merritt Trust Services. The City provides these services to the Port.

Special Services include designated police services, personnel, city clerk, legislative programming, and treasury services. General Services include fire, rescue, police, street maintenance, and similar services. Lake Merritt Trust Services include items such as recreation services, grounds maintenance, security, and lighting.

Port payments to the City for these services are made upon presentation of supporting documentation and authorizations from the Board.

**Special Services and ARFF**

Payments for Special Services and ARFF are treated as a cost of Port operations pursuant to City Charter Section 717(3) Clause Third and have priority over certain other expenditures of Port revenues. Special Services and ARFF from the City totaled \$7,065,000 and \$6,971,000 in fiscal years 2016 and 2015, respectively, and are included in Operating Expenses. At June 30, 2016 and 2015, \$6,767,000 and \$6,674,000, respectively, were accrued as current liabilities for these payments.

**General Services and Lake Merritt Trust Services**

Payments for General Services provided by the City are payable only to the extent the Port determines annually that surplus monies are available under the Charter for such purposes. As of June 30, 2016 and 2015, the Port accrued approximately \$676,000 and \$841,000, respectively, of payments for General Services. Additionally, the Port accrued approximately \$1,625,000 and \$1,401,000 to reimburse the City for Lake Merritt Trust Services in fiscal years 2016 and 2015, respectively. Subject to availability of surplus monies, the Port expects that it will continue to reimburse the City annually for General Services and Lake Merritt Trust Services.

**Unearned Rent**

In November 1994, the City entered into an agreement with the Port to partially fund the development of a project related to a lease at the Port. The lease required \$5,145,000 in tenant improvements partially financed by \$2,000,000 in deferred rent from the City's former Redevelopment Agency. The unearned rent is classified as unearned revenue. At June 30, 2016 and 2015, unearned rent was approximately \$663,000 and \$733,000, respectively. The amount classified as short term unearned revenue at June 30, 2016 and 2015 was \$70,000.

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**12. Commitments**

**Capital Program**

As of June 30, 2016, the Port had construction commitments for the acquisition and construction of assets as follows (in thousands):

Aviation	\$ 47,524
Maritime	6,432
Other	-
Total	<u>\$ 53,956</u>

The most significant project for which the Port has contractual commitments for construction is the Airport Terminal 1 retrofit and renovation program of \$43,801,000.

**Power Purchases**

The Port purchases electrical power for resale and self-consumption and currently has three power purchase agreements with the East Bay Municipal Utility District (EBMUD), the Western Area Power Administration (WAPA) and SunEdison, LLC (SunEdison) with expiration dates greater than two years.

Counterparty	Contract Ending Year	Contract Structure	Estimated Annual Output	Estimated Annual Cost
EBMUD	2022	Take and Pay – (Pay contract price only if energy is received)	8,000 MWH	Approx. \$584,000 with no Annual Escalator through 2017; Approx. \$464,000 with no Annual Escalator from 2017-2022
WAPA	2024	Take or Pay – (Pay contract price without regard to energy received)	17,000 MWH	Approx. \$800,000 (Changes annually depending on revenue requirement for power generation projects)
SunEdison	2027	Take and Pay – (Pay contract price only if energy is received)	1,200 MWH	Approx. \$200,000 with Annual Escalator

In addition to the aforementioned power purchase agreements, as of June 30, 2016, the Port held multiple forward power purchase contracts totaling approximately \$4.8 million with Powerex Corporation and Shell Energy North America. The forward power purchase contracts have various expiration dates through December 31, 2019.

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**13. Contingencies**

**Environmental**

The entitlements for the Airport Development Program (ADP) subject the Port to obligations arising from the adopted ADP Mitigation Monitoring and Reporting Program required under the California Environmental Quality Act; permits issued by numerous regulatory agencies including the Regional Water Quality Control Board and the Bay Conservation and Development Commission; and settlement agreements. The majority of these obligations have been met, and monitoring and reporting are ongoing.

A summary of the Port's environmental liability accounts, net of the estimated recoveries, included as Environmental and other liability on the statements of net position at June 30, 2016 and 2015, is as follows (in thousands):

Obligating Event	2016 Liability, net of recovery	Estimated Recovery
Pollution poses an imminent danger to the public or environment	\$ 1,678	\$ -
Violated a pollution prevention-related permit or license	-	-
Identified as responsible to clean-up pollution	10,916	193
Named in a lawsuit to compel to cleanup	-	-
Begins or legally obligates to cleanup or post-cleanup activities	2,468	50
Total by Obligating Event	<u>\$ 15,062</u>	<u>\$ 243</u>

Obligating Event	2015 Liability, net of recovery	Estimated Recovery
Pollution poses an imminent danger to the public or environment	\$ 449	\$ 4
Violated a pollution prevention-related permit or license	-	-
Identified as responsible to clean-up pollution	8,286	1,633
Named in a lawsuit to compel to cleanup	-	-
Begins or legally obligates to cleanup or post-cleanup activities	2,965	191
Total by Obligating Event	<u>\$ 11,700</u>	<u>\$ 1,828</u>

The environmental liability accounts in the summary tables are listed by the initial obligating event. Due to new information, the obligating event may change from the initial obligating event. Examples of obligating events include: 1) the Port is named, or evidence indicates that it will be named, by a regulator such as the Department of Toxic Substances Control or the Regional Water Quality Control Board, as a responsible party or potentially responsible party for remediation; or 2) the Port has commenced, or legally obligates itself to commence, clean-up activities, monitoring or operation and maintenance of the remediation effort (e.g., by undertaking a soil and groundwater pre-development investigation).

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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***Methods and Assumptions***

The Port measured the environmental liabilities for pollution remediation sites on Port-owned property using the Expected Cash Flow technique. The measurements are based on the current value of the outlays expected to be incurred. The cash flow scenarios include each component which can be reasonably estimated for outlays such as testing, monitoring, legal services and indirect outlays for Port labor instead of ranges of all components. Reasonable estimates of ranges of possible cash flows are limited from a single scenario to a few scenarios. Data used to develop the cash flow scenarios is obtained from outside consultants, Port staff, and the Port's outside legal counsel.

Changes to estimates will be made when new information becomes available. Estimates for the pollution remediation sites will be developed when the following benchmarks or changes in estimated outlays occur:

- Receipt of an administrative order.
- Participation, as a responsible party or a potentially responsible party, in the site assessment or investigation.
- Completion of a corrective measures feasibility study.
- Issuance of an authorization to proceed.
- Remediation design and implementation, through and including operation and maintenance and post remediation monitoring.
- Change in the remediation plan or operating conditions, including but not limited to type of equipment, facilities and services that will be used and price increases.
- Changes in technology.
- Changes in legal or regulatory requirements.

***Recoveries***

The environmental liabilities balances listed on the prior page have been reduced by estimated future recoveries. In calculating the estimated future recoveries, Port staff and outside legal counsel reviewed and applied the requirements of GASB 49 for accounting for recoveries. For example, if a Port tenant has a contract obligation to reimburse the Port for certain pollution remediation costs, or if an insurance carrier has paid money on a certain claim and the Port is pursuing additional costs from the insurance carrier associated with the claim, then a recovery was estimated. If an insurance carrier has not yet acknowledged coverage, then a recovery was not estimated.

***Litigation***

The Port at various times is a defendant in various lawsuits arising in the normal course of business, including constructing public improvements or construction related claims for unspecified amounts. The ultimate disposition of these suits and claims is not known and the Port's insurance may cover a portion of any losses, if incurred. Port management may make provision for probable losses if deemed appropriate on the advice of legal counsel.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**Grants**

Certain grants that the Port receives are subject to audit and financial acceptance by the granting agency based upon review of cost incurred and submitted for reimbursement or demonstrated Port match. The Port's management does not believe that such audits will have a material impact on the financial statements. The Port is actively working with Federal Aviation Administration, the Port's cognizant agency, to obtain negotiated indirect rate agreements as provided for under the U.S. Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments for time periods prior to December 26, 2014 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards on or after December 26, 2014. In some cases, the Port expects the final negotiated rates to be lower than what was originally submitted for reimbursement, however, cannot reasonably estimate at this time the total net impact on all time periods under review.

**14. Insurance**

The Port purchases insurance on certain risk exposures including but not limited to property, automobiles liability, airport liability, umbrella liability, environmental liability, fidelity, fiduciary liability, and public official's liability. Port deductibles for the various insured programs range from \$10,000 to \$1,000,000 each claim. The Port is self-insured for other general liability and liability/litigation-type claims, workers' compensation of the Port's employees and most first party exposures. During fiscal years 2016 and 2015, the Port carried excess insurance over \$1,000,000 for the self-insured general liability and worker's compensation exposures. There have been no claim payments related to these programs that exceeded insurance limits in the last three years.

**Workers' Compensation**

Changes in the reported liability, which is included as part of environmental and other, follows (in thousands):

Workers' compensation liability at June 30, 2013	\$ 9,630
Current year claims and changes in estimates	3,025
Claim payments	<u>(1,473)</u>
Workers' compensation liability at June 30, 2014	11,182
Current year claims and changes in estimates	2,792
Claim payments	<u>(1,313)</u>
Workers' compensation liability at June 30, 2015	12,661
Current year claims and changes in estimates	876
Claim payments	<u>(1,288)</u>
Workers' compensation liability at June 30, 2016	<u>\$ 12,249</u>

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**Workers' Compensation (continued)**

The workers' compensation liability of \$12,249,000 at June 30, 2016 is based upon an actuarial study performed as of June 30, 2016 that assumed a probability level of 80% and a discount rate of 0.0%. The workers' compensation liability balance of \$12,661,000 at June 30, 2015 is based upon an actuarial study performed as of June 30, 2015 that assumed a probability level of 80% and a discount rate of 0.0%.

**Capital Improvement Projects**

The Port maintains an Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) for contractors and consultants working on Port Capital Improvement Projects (CIP).

OCIP provides general liability insurance and workers' compensation insurance for contractors working on CIP projects. The Port is responsible for payment of the deductible/self-insured retention, which is currently \$250,000 for each general liability and workers' compensation claim.

The PLIP provides professional liability insurance for consultants working on Port CIP projects. Subject to this program, the consultants separately are responsible for paying the deductible/self-insured retentions, which are \$50,000 for consultants with annual revenues under \$20,000,000 and \$1,000,000 for consultants with annual revenues over \$20,000,000. The Port's deductible/self-insured retention is \$1,000,000. There is no actuarial forecast for this coverage.

**15. Outer Harbor Terminal Closure**

On February 1, 2016, Outer Harbor Terminal, LLC (formerly Ports America Outer Harbor Terminal, LLC) ("OHT") filed for Chapter 11 bankruptcy protection. At that time OHT held a 50-year lease with the Port to operate at Berths 20-24, a month to month lease to operate Berth 25/26 (including crane maintenance), and a separate lease to operate and maintain cranes at Berth 20-24. On February 20, 2016, the Port reached a settlement agreement with OHT by which the Port would let OHT out of its lease obligations. This agreement was subsequently approved by the bankruptcy court. This event returned property to the Port that was in need of significant repairs and deferred maintenance of which the Port estimates will cost approximately \$22,337,000 to complete over the next three years. In fiscal year 2016, the Port recognized a net gain on the lease termination as non-operating revenue composed of the following:

Unamortized upfront fee at time of lease termination	\$ 46,977
Security deposit and lease termination fee	10,560
Lease terminal loss contingency	<u>(22,337)</u>
Gain on long-term lease termination	<u><u>\$ 35,200</u></u>

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Notes to Financial Statements**  
**For the years ended June 30, 2016 and 2015**

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**16. Subsequent Events**

**Debt Issuance**

On August 16, 2016, the Port issued \$11,005,000 of Series A (AMT) commercial paper notes and on November 1, 2016, the Port issued additional \$1,153,000 of Series A (AMT) commercial paper notes, to reimburse prior capital expenditures, which included expenditures for the Port's Runway Safety Area project and for the Terminal 1 retrofit and renovation project. These transactions are part of a larger plan to finance PFC-eligible Airport projects by utilizing debt when the rate of project expenditure exceeds the rate of PFC collections. In its fiscal year 2017 Capital Budget, the Port has estimated that a total of \$68.7 million will be issued for this purpose over the 5-Year Capital Improvement Program period.

**Credit Rating**

On October 14, 2016, Fitch Ratings affirmed its rating on the Port's senior lien revenue bonds at "A+", and raised its rating on the Port's intermediate lien revenue bonds to "A" from "A-". The rating outlook for both liens is stable.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

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**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Required Supplementary Information (Unaudited)**  
**For the years ended June 30, 2016 and 2015**

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**1. Schedule of Funding Progress – Other Postemployment Benefits**

The schedule of funding progress provides a consolidated snapshot of the Port's ability to meet current and future liabilities with plan assets. The funded ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the OPEB plan. The closer the plan is to a 100% funded status; the better position it will be in to meet all of its future liabilities.

An actuarial valuation study performed as of June 30, 2015 valued the Actuarial Accrued Liability at \$157,351,000 an increase of \$20,735,000 from the previous study performed as of June 30, 2013.

The schedule of funding progress is as follows (in thousands):

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
6/30/2011 \$	19,145	\$ 128,906	\$ 109,760	14.9%	\$ 44,627	246%
6/30/2013	30,715	136,616	105,901	22.5%	47,823	221%
6/30/2015	47,870	157,351	109,481	30.4%	50,093	219%

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## **Statistical Section (Unaudited)**

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**PORT OF OAKLAND**  
**(A Component Unit of the City of Oakland)**

**Statistical Section**

This part of the comprehensive annual financial report for the Port of Oakland presents detailed information as a context for understanding the financial statements, note disclosures, and required supplementary information.

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**Port of Oakland**  
(A Component Unit of the City of Oakland)  
Net Position by Components  
Last Ten Fiscal Years  
(dollar amounts in thousands)

	2007	2008 (1)	2009 (2)	2010	2011 (3)	2012	2013	2014	2015 (4)	2016
Net position:										
Net investment in capital assets	\$ 875,547	\$ 862,165	\$ 853,011	\$ 881,567	\$ 869,014	\$ 882,351	\$ 944,974	\$ 986,959	\$ 1,053,882	\$ 1,097,049
Restricted	9,806	12,692	21,357	11,677	17,187	20,553	14,178	10,072	12,066	14,840
Unrestricted	11,896	39,729	14,838	(2,258)	19,774	39,430	69,267	113,160	(26,190)	30,657
Total net position	\$ 897,249	\$ 914,586	\$ 889,206	\$ 890,986	\$ 905,975	\$ 942,334	\$ 1,028,419	\$ 1,110,191	\$ 1,039,758	\$ 1,142,546

Note: (1) The beginning balance decreased \$9,212 for a prior period adjustment.  
(2) The beginning balance decreased \$6,680 due to the adoption of GASB 49.  
(3) The beginning balance decreased \$20,025 due to the adoption of GASB 65.  
(4) The beginning balance decreased \$182,324 due to the adoption of GASB 68.

**Port of Oakland**  
(A Component Unit of the City of Oakland)  
**Statements of Revenues, Expenses and Changes in Net Position**  
Last Ten Fiscal Years  
(dollar amounts in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating revenues:										
Aviation	\$ 139,491	\$ 159,086	\$ 130,443	\$ 130,284	\$ 135,173	\$ 140,309	\$ 150,871	\$ 157,220	\$ 162,135	\$ 173,067
Maritime	127,141	128,351	140,739	143,344	151,854	152,988	151,869	152,657	158,684	148,772
Commercial real estate	10,742	12,446	12,108	11,597	10,956	12,841	12,778	13,163	15,768	16,198
Total operating revenues	277,374	299,883	283,290	285,225	297,983	306,138	315,518	323,040	336,587	338,037
Operating expenses:										
Aviation	144,169	162,299	161,542	152,099	152,086	152,064	150,461	153,989	161,489	165,344
Maritime	75,570	82,264	90,029	84,004	83,383	85,156	87,683	96,605	100,609	107,135
Commercial real estate	14,140	13,711	12,674	12,606	11,349	11,590	11,713	12,991	13,324	12,755
Total operating expenses (1)	233,879	258,274	264,245	248,709	246,818	248,810	249,857	263,585	275,422	285,234
Operating income	43,495	41,609	19,045	36,516	51,165	57,328	65,661	59,455	61,165	52,803
Non-operating revenues (expenses):										
Interest income	10,457	13,145	9,655	4,741	2,876	1,755	1,095	1,373	1,783	2,149
Interest expense	(65,261)	(76,796)	(78,415)	(74,624)	(70,714) (6)	(66,798) (6)	(59,598)	(53,977)	(51,636)	(49,889)
Loss on debt defeasance	-	-	-	(4,158)	-	-	-	-	-	-
Customer facility charges	7,430	6,999	5,235	4,530	4,764	5,184	5,387	5,625	6,253	5,939
Customer facility charges expenses (2)	-	-	-	-	-	-	-	(4,219)	(4,137)	(4,307)
Passenger facility charges	30,221	27,033	19,391	19,702	19,106	19,758	19,924	19,698	21,478	22,929
Grant revenue	-	-	-	-	-	-	-	-	3,874	1,419
Grant expenses	-	-	-	-	-	-	-	-	(3,874)	(1,419)
Other income (expenses)	10,419	2,452	(5,072)	292	1,438	(1,809)	3,668	(2,727)	3,176	3,744
Gain on lease termination	-	-	-	-	-	-	-	-	-	35,200
Gain (loss) on disposal of capital assets	(2,761)	(14,985)	(435)	(6,562)	-	(2,276)	12,052	(3,791)	84	(629)
Total net non-operating expenses	(9,495)	(42,152)	(49,641)	(56,079)	(42,530)	(44,186)	(17,472)	(38,018)	(22,999)	15,136
Change in net assets before capital contributions	34,000	(543)	(30,596)	(19,563)	8,635	13,142	48,189	21,437	38,166	67,939
Capital contributions:										
Grants from government agencies	14,094	27,092	11,896	21,343	27,343	23,217	37,896	60,335	73,725	34,849
Land conveyed from U.S. Army	21,573	-	-	-	-	-	-	-	-	-
Total capital contributions	35,667	27,092	11,896	21,343	27,343	23,217	37,896	60,335	73,725	34,849
Change in net position	69,667	26,549	(18,700)	1,780	35,978	36,359	86,085	81,772	111,891	102,788
Net position, beginning of the year	827,582	888,037 (3)	907,906 (4)	889,206	869,997 (5)	905,975	942,334	1,028,419	927,867 (7)	1,039,758
Net position, end of the year	\$ 897,249	\$ 914,586	\$ 889,206	\$ 890,986	\$ 905,975	\$ 942,334	\$ 1,028,419	\$ 1,110,191	\$ 1,039,758	\$ 1,142,546

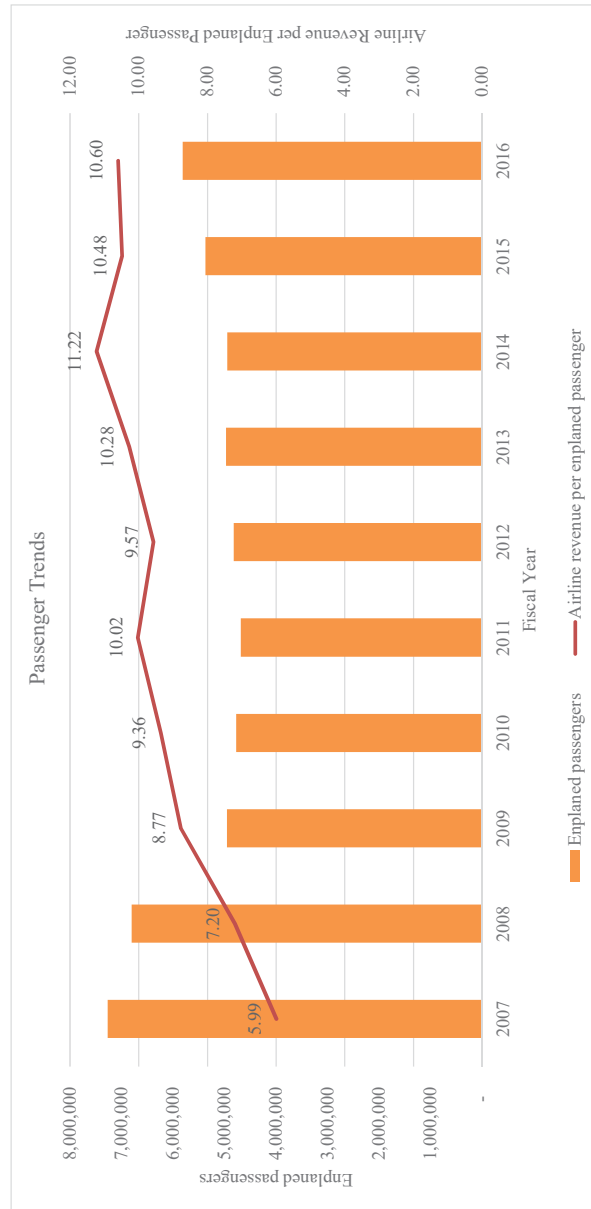
Note:

- (1) Total operating expenses include depreciation.
- (2) Beginning in fiscal year 2016, expenses reimbursed by CFCs have been reclassified from operating to non-operating expenses. For comparative purposes, fiscal year 2014 and 2015 operating expenses have been restated to conform with fiscal year 2016 presentation.
- (3) The beginning net position balance decreased by \$9,212 in fiscal year 2008 for a prior period adjustment.
- (4) The beginning net position balance decreased by \$6,680 in fiscal year 2009 due to the adoption of GASB 49.
- (5) The beginning net position balance decreased \$20,989 in fiscal year 2011 due to the adoption of GASB 65.
- (6) Interest expense was increased by \$964 in fiscal year 2011 and decreased by \$1,088 in fiscal year 2012 due to the adoption of GASB 65.
- (7) The beginning net position balance in fiscal year 2015 decreased \$182,324 due to the adoption of GASB 68.

# Port of Oakland

(A Component Unit of the City of Oakland)  
Principal Revenue Sources and Airline Revenue per Enplaned Passenger  
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Aviation revenues:										
Terminal rental (1)	\$ 29,086,828	\$ 32,153,229	\$ 26,263,040 (3)	\$ 25,497,463	\$ 27,364,000	\$ 26,501,221	\$ 31,231,563	\$ 35,656,540	\$ 36,194,008	\$ 41,719,055
Landing fees (excludes cargo airlines)	14,442,874	16,838,252	17,213,846	19,206,913	19,626,426	19,699,801	19,902,017	19,902,682	20,135,955	19,876,248
Total airline revenues	43,529,702	48,991,481	43,476,886	44,704,376	46,990,426	46,201,022	51,133,580	55,559,222	56,329,963	61,595,303
Concession	18,773,156	21,861,577	17,948,928 (3)	18,797,132	19,127,821	19,372,472	20,103,716	20,844,939	22,018,984	23,408,308
Parking & ground access	41,567,417	39,221,863	29,505,355 (3)	28,001,940	28,812,537	29,252,483	30,547,660	31,848,118	33,348,923	36,826,447
Lease rentals	18,054,979	20,551,862	21,004,740	19,776,344	20,707,048	24,271,955	26,778,749	26,635,475	28,572,415	29,835,813
Landing fees--cargo airlines	5,677,359	6,603,275	7,926,263	7,646,361	8,673,223	8,640,337	8,860,083	9,448,582	9,647,184	9,333,015
Aviation fueling	3,993,271	13,411,817	3,564,246	3,589,896	3,560,980	3,984,459	3,918,318	3,913,768	2,939,581	2,335,463
Utility sales	3,803,021	4,000,763	4,192,036	3,690,206	4,427,134	3,846,405	5,324,150	4,211,638	4,200,661	4,257,290
Other (2)	4,092,139	4,443,581	2,824,306	4,077,976	2,873,178	4,740,148	4,204,678	4,758,285	5,077,355	5,475,468
Total revenues	\$ 139,491,044	\$ 159,086,219	\$ 130,442,760	\$ 130,284,231	\$ 135,172,347	\$ 140,309,281	\$ 150,870,934	\$ 157,220,027	\$ 162,135,066	\$ 173,067,107
Enplaned passengers	7,267,170	6,802,486	4,955,743 (3)	4,777,514	4,687,878	4,825,802	4,973,107	4,949,628	5,374,187	5,812,058
Airline revenue per enplaned passenger	\$ 5.99	\$ 7.20	\$ 8.77	\$ 9.36	\$ 10.02	\$ 9.57	\$ 10.28	\$ 11.22	\$ 10.48	\$ 10.60



Note:

(1) Terminal rentals are for airlines only. Non-airline terminal rental revenues are classified under "Other".

(2) Includes non-airline terminal revenues, miscellaneous revenues and other field revenue.

(3) The drop in commercial activities was due to loss of 7 airlines, namely American Airlines, Aloha Airlines, Continental Airlines, Express Jet, Skybus, ATA Airlines and TACA International Airlines.

**Port of Oakland**  
(A Component Unit of the City of Oakland)  
Aviation Statistics - South Airport  
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>PASSENGERS</b>										
Enplaned	7,267,170	6,802,486	4,955,743	4,777,514	4,687,878	4,825,802	4,973,107	4,949,628	5,374,187	5,812,058
Deplaned	7,266,655	6,824,544	4,968,042	4,780,661	4,679,699	4,817,753	4,977,749	4,940,643	5,380,369	5,802,787
Total	14,533,825	13,627,030	9,923,785 <sup>(1)</sup>	9,558,175	9,367,577	9,643,555	9,950,856	9,890,271	10,754,556	11,614,845
<b>FREIGHT (in 000 lb)</b>										
Inbound	693,291	694,513	568,696	516,536	536,601	532,724	529,605	563,601	581,482	576,289
Outbound	768,048	741,453	626,474	541,473	568,082	552,475	543,928	571,474	594,450	619,002
Total	1,461,339	1,435,966	1,195,170 <sup>(2)</sup>	1,058,009	1,104,683	1,085,199	1,073,533	1,135,075	1,175,932	1,195,291
<b>TOTAL AIR CARGO (in 000 lb)</b> (Freight & mail)	1,471,796	1,452,437	1,212,414 <sup>(2)</sup>	1,079,243	1,124,605	1,104,388	1,087,140	1,147,454	1,188,335	1,181,126
<b>LANDED WEIGHT (in 000 lb) <sup>(3)</sup></b>										
Passenger carriers	9,385,633	9,095,540	6,873,516 <sup>(1)</sup>	6,328,081	5,957,187	6,076,945	6,059,597	5,910,395	6,247,035	6,670,725
Cargo carriers	3,678,155	3,560,162	3,158,521 <sup>(2)</sup>	2,494,619	2,624,269	2,634,870	2,685,817	2,818,418	2,978,823	3,173,690
Total	13,063,788	12,655,702	10,032,037	8,822,700	8,581,456	8,711,815	8,745,414	8,728,813	9,225,858	9,844,415
<b>AIRCRAFT MOVEMENTS</b>	189,712	181,690	122,028 <sup>(1)</sup>	114,327	106,260	107,652	102,470	100,384	104,592	112,037
<b>PARKING</b>										
Number of stalls <sup>(4)</sup>	6,864	7,868	6,103	6,315	6,950	6,516	6,516	6,621	6,878	6,898
Average revenue per stall	\$5,112	\$4,151	\$3,991 <sup>(1)</sup>	\$3,605	\$3,391	\$3,688	\$3,900	\$4,016	\$4,203	\$4,544

Note:

(1) The drop in commercial activities was due to loss of 7 airlines, namely American Airlines, Aloha Airlines, Continental Airlines, Express Jet, Skybus, ATA Airlines and TACA International Airlines.

(2) Federal Express reduced the number of flights by 13% during FY 2008-09.

(3) Excludes non-revenue flights.

(4) Available parking stalls are increased or decreased due to market demand or to make space available for construction projects.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Top Ten Individual Sources of Aviation Revenue**  
**Fiscal Year 2016 and Fiscal Year 2007**

<u><b>Fiscal Year 2016</b></u>	<b>Percent of Total Aviation</b>		<u><b>Fiscal Year 2007</b></u>	<b>Percent of Total Aviation</b>	
	<u><b>Revenue</b></u>	<u><b>Revenue</b></u>		<u><b>Revenue</b></u>	<u><b>Revenue</b></u>
Southwest Airlines	\$ 41,036,393	23.7%	On-Airport Public Parking (2)	\$ 35,088,901	25.2%
On-Airport Public Parking (1)	32,504,824	18.8%	Southwest Airlines	24,308,528	17.4%
Federal Express Corp.	18,683,058	10.8%	Federal Express Corp.	8,819,007	6.3%
Signature Flight Support Acquisition Co. LLC	6,396,694	3.7%	Air Terminal Service (CA1)	4,997,918	3.6%
Avis Budget Group, Inc.	6,103,262	3.5%	Hertz Corporation	4,256,694	3.1%
Hertz Corporation	4,941,673	2.9%	United Airlines	3,892,137	2.8%
HMS Host Corporation	4,633,818	2.7%	Alaska Airlines	3,337,872	2.4%
Alaska Airlines	4,484,855	2.6%	AirBart - Bay Area Rapid Transit	2,885,910	2.1%
United Parcel Service	3,811,402	2.2%	Avis Rent-A-Car System, Inc.	2,841,787	2.0%
DTG Operations, Inc.	3,111,881	1.8%	Oakland Fuel Facilities Corp.	2,633,777	1.9%

Note:

(1) Operated by LAZ Parking California, LLC. as of December 1, 2012.

(2) Operated by Five Star Parking.

**Port of Oakland**  
(A Component Unit of the City of Oakland)  
Schedule of Airline Rates and Charges  
Last Ten Fiscal Years

Costs from Period:	Budget FY06-07	Budget FY07-08	Budget FY08-09	Budget FY09-10	Budget FY10-11	Budget FY11-12	Budget FY12-13	Budget FY13-14	Budget FY14-15	Budget FY 15-16
Rates & Charges for Period:	CY2007	(2) FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
<u>Landing Fees (per 1,000 lbs. MGLW)(1)</u>										
Basic Landing Rate	\$ 1.62	\$ 1.85	\$ 2.50	\$ 3.06	\$ 3.30	\$ 3.27	\$ 3.29	\$ 3.33	\$ 3.24	\$ 2.94
<u>Terminal Space Rental (per square foot per year)</u>										
Type1 - Ticket Counter	\$ 181.34	\$ 188.13	\$ 164.81	\$ 164.81	\$ 176.81	\$ 176.26	\$ 211.56	\$ 242.93	\$ 241.62	\$ 268.00
Type2 - Office Space	163.21	169.32	148.33	148.33	159.13	158.63	190.40	218.64	217.46	241.20
Type3 - Baggage Space (3)	145.07	150.50	131.85	131.86	141.45	141.00	169.24	194.34	193.30	214.40
Type4 - Baggage Make-Up	126.94	131.69	115.37	115.37	123.77	123.39	148.10	170.06	169.13	187.60
Type5 - Ticket Counter (Others)	90.67	94.07	82.41	82.42	88.41	88.13	105.78	121.47	120.81	134.00
Type6 - Office Space (Others)	81.61	84.66	74.16	74.16	79.56	79.32	95.21	109.32	108.73	120.60
Type7 - Baggage Make-Up (Others)	63.47	65.85	57.68	57.68	61.88	61.69	74.05	85.03	84.57	93.80

Primary Holdroom, Loading Bridge Rental (per holdroom per month)

Holdroom, Loading Bridge	\$ 31,678	\$ 34,576	\$ 31,269	\$ 32,801	\$ 36,006	\$ 36,080	\$ 41,907	\$ 46,835	\$ 46,794	\$ 54,479
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Note:

- (1) MGLW - Maximum Gross Landing Weight  
 (2) In FY2007, the Port converted from using actual previous year's expenses to budgeted expenses for the forthcoming fiscal year as the basis for calculating Rates & Charges.  
 (3) The baggage claim requirement is calculated by multiplying the Type 3 rate by the square footage of the baggage claim areas. Until FY2008, the requirement is calculated among the airlines using an 80/20 formula. 20% of the revenue requirement is divided equally among all airlines. The remaining 80% is distributed among all airlines based on the number of enplaned passengers. Beginning FY2009, the requirement is distributed among all airlines based on the number of enplaned passengers.

# Port of Oakland

(A Component Unit of the City of Oakland)  
Principal Revenue Sources and Maritime Revenue per TEU  
Last Ten Fiscal Years  
(dollar amounts in thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Maritime revenues:										
Lease rentals - terminal	\$ 115,305	\$ 117,795	\$ 126,068	\$ 130,254	\$ 138,964	\$ 140,777	\$ 139,415	\$ 134,845	\$ 133,689	\$ 113,864
Lease rentals - other	3,306	3,731	8,553	6,961	5,771	5,726	6,518	8,665	12,984	17,335
Parking fees (2)	-	-	-	-	-	-	-	-	-	6,137
Other revenues	3,177	2,248	1,966	1,813	2,881	2,203	1,921	3,313	2,571	1,443
Utility sales	5,353	4,577	4,152	4,316	4,238	4,282	4,015	5,834	9,440	9,993
	<u>\$ 127,141</u>	<u>\$ 128,351</u>	<u>\$ 140,739</u>	<u>\$ 143,344</u>	<u>\$ 151,854</u>	<u>\$ 152,988</u>	<u>\$ 151,869</u>	<u>\$ 152,657</u>	<u>\$ 158,684</u>	<u>\$ 148,772</u>
Full TEUs	1,722,522	1,802,004	1,605,613	1,729,383	1,798,960	1,796,849	1,793,749	1,832,559	1,713,809	1,784,387 (1)
Maritime revenue per Full TEU	<u>\$ 73.81</u>	<u>\$ 71.23</u>	<u>\$ 87.65</u>	<u>\$ 82.89</u>	<u>\$ 84.41</u>	<u>\$ 85.14</u>	<u>\$ 84.67</u>	<u>\$ 83.30</u>	<u>\$ 92.59</u>	<u>\$ 83.37</u>

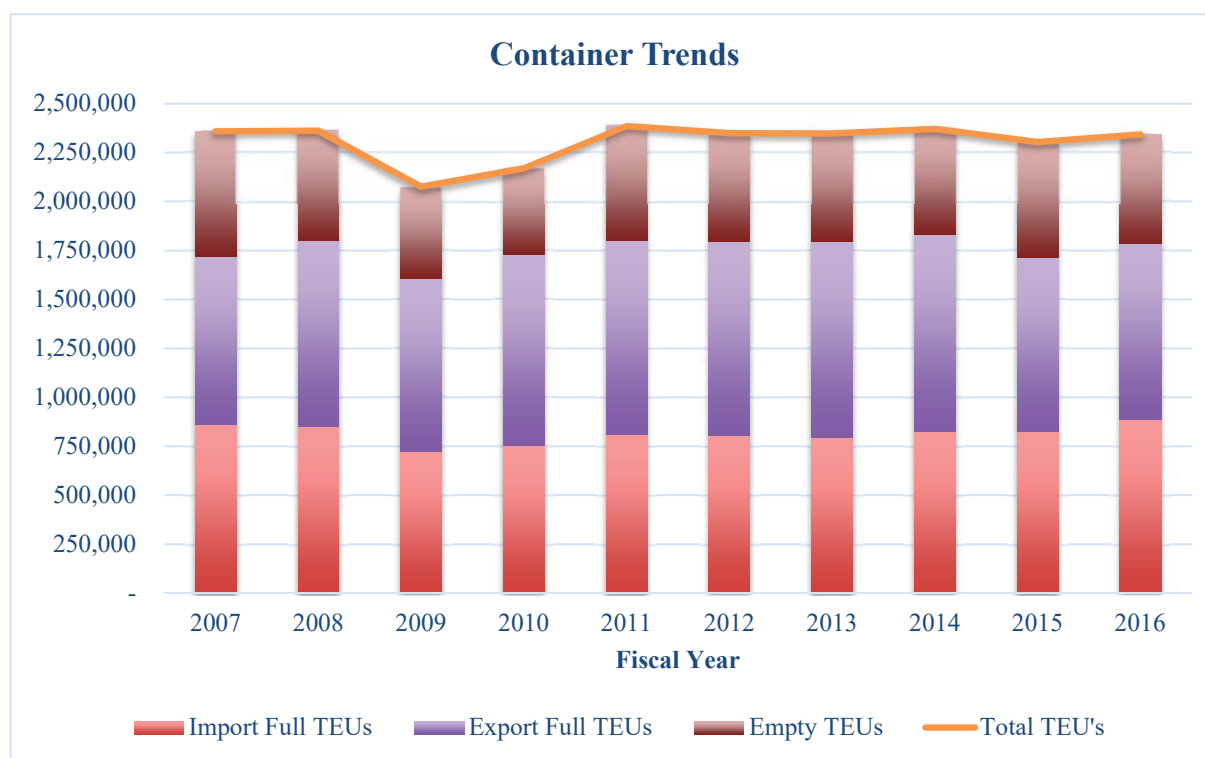
Note:

(1) Subject to change pending completion of operational audits.

(2) Prior to fiscal year 2016 parking fees were reported as part of lease rentals - terminal revenue

**Port of Oakland**  
 (A Component Unit of the City of Oakland)  
**Maritime Division - Container Trends**  
**Last Ten Fiscal Years**

Fiscal Year	Full TEUs					Empty TEUs	Total TEUs
	Import	%	Export	%	Total Full		
2007	863,393	50%	859,129	50%	1,722,522	635,988	2,358,510
2008	848,383	47%	953,621	53%	1,802,004	560,031	2,362,035
2009	723,504	45%	882,109	55%	1,605,613	470,596	2,076,209
2010	754,316	44%	975,067	56%	1,729,383	440,456	2,169,839
2011	811,096	45%	987,864	55%	1,798,960	587,077	2,386,037
2012	802,914	45%	993,935	55%	1,796,849	553,103	2,349,952
2013	794,511	44%	999,238	56%	1,793,749	554,155	2,347,904
2014	824,310	45%	1,008,249	55%	1,832,559	538,146	2,370,705
2015	827,141	48%	886,668 <sup>(1)</sup>	52%	1,713,809	590,736	2,304,545
2016	884,186	50%	900,201	50%	1,784,387 <sup>(2)</sup>	558,294	2,342,681



Note:

- (1) Decrease in full container exports was driven by a strengthening U.S. dollar, impacts of the drought on California agriculture, and cargo diverted from the west coast during labor disruptions.
- (2) Subject to change pending completion of operational audits.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Top Ten Individual Sources of Maritime Revenue by Alphabetical Order**  
**Fiscal Year 2016 and Fiscal Year 2007**

**Fiscal Year 2016**

BNSF Railway Company  
 ConGlobal Industries  
 Everport Terminal Services, Inc.(2)  
 Impact Transportation  
 Pacific Coast Container, Inc.  
 Ports America Outer Harbor Terminal, LLC  
 Shippers Transport Express, Inc.  
 SSA Terminals, LLC and SSA Terminals (Oakland), LLC (combined)  
 TraPac, Inc.  
 Truck Parking (1)

**Fiscal Year 2007**

APM Terminals Pacific , LTD  
 Burlington Northern/Santa Fe  
 Eagle Marine Services  
 Evergreen Marine Corp. (Taiwan) Ltd (2)  
 GSC Logistics  
 International Transportation Service  
 Shipper's Transport Express, Inc.  
 SSA Terminals, LLC  
 Total Terminals International, LLC  
 Trans Pacific Container Service Corp.

The Port of Oakland terminal tenants compete against each other for business. The Port feels disclosure of revenue by tenant would give advantages or disadvantages to certain tenants and therefore revenue and percent of total maritime revenue have been excluded from this report.

## Note:

- (1) Operated by Ampco System Parking, Inc.  
 (2) Subsequent to Fiscal Year 2006, Evergreen Marine Corp. (Taiwan) Ltd has assigned it's property agreements with the Port of Oakland to Everport Terminal Services Inc.

**Port of Oakland**  
(A Component Unit of the City of Oakland)  
**Net Pledged Revenues and Debt Service Coverage Calculation**  
Last Ten Fiscal Years  
(dollar amounts in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenues	\$ 277,374	\$ 299,883	\$ 283,290	\$ 285,225	\$ 297,983	\$ 306,138	\$ 315,518	\$ 323,040	\$ 336,587	\$ 338,037
Operating Expenses	233,879	258,274	264,245	248,709	246,818	248,810	249,857	263,585	275,422	285,234
Less: Depreciation Expense	(80,788)	(88,907)	(96,938)	(98,810)	(98,816)	(98,032)	(98,234)	(99,259)	(101,759)	(104,077)
Less: CFC and Grant Reimbursed Operating Expense (1)	(5,337)	(5,320)	(4,808)	(3,968)	(3,724)	(4,217)	(5,197)	(736)	-	-
Adjusted Operating Expenses	147,754	164,047	162,499	145,931	144,278	146,561	146,426	163,590	173,663	181,157
Adjusted Operating Income	129,620	135,836	120,791	139,294	153,705	159,577	169,092	159,450	162,924	156,880
Gross Interest Earned (2)	-	-	9,655	8,635	1,865	1,755	1,095	1,373	1,783	2,149
Less: Interest Earned on PFC and CFC Funds	-	-	(273)	(69)	(68)	(78)	(59)	(54)	(42)	(47)
Adjusted Interest Income (3)	8,838	9,095	9,382	8,566	1,797	1,677	1,036	1,319	1,741	2,102
Net Pledged Revenues Available for Debt Service	\$ 138,458	\$ 144,931	\$ 130,173	\$ 147,860	\$ 155,502	\$ 161,254	\$ 170,128	\$ 160,769	\$ 164,665	\$ 158,982
Debt Service										
Senior Bonds (4)	\$ 82,649	\$ 71,230	\$ 64,465	\$ 84,218	\$ 66,641	\$ 69,173	\$ 68,263	\$ 48,069	\$ 50,146	\$ 48,191
Senior Bonds, DBW Loan and Intermediate Bonds	N/A	84,458	94,045	113,303	105,645	108,175	107,268	98,191	98,192	98,877
Debt Service Coverage Ratio										
Senior Lien (5)	1.68	2.03	2.02	1.76	2.33	2.33	2.49	3.34	3.28	3.30
Intermediate Lien (6) (7)	N/A	1.72	1.38	1.42	1.47	1.50	1.59	1.64	1.68	1.61

## Note:

(1) Beginning in fiscal year 2016, expenses reimbursed by CFCs have been reclassified from operating to non-operating expenses. For comparative purposes, fiscal year 2014 and 2015 operating expenses have been restated to conform with fiscal year 2016 presentation. The Debt Service Coverage Ratios in fiscal year 2014 and 2015 do not change.

(2) Starting in fiscal year 2011, the amortization of bond premium is no longer included in Gross Interest Earned.

(3) Break out of interest earned on PFC and CFC funds not readily available prior to fiscal year 2009.

(4) Senior Bonds Debt Service is less capitalized interest.

(5) Senior Lien Debt Service Coverage Ratio is calculated by dividing Net Pledged Revenues Available for Debt Service by Senior Bonds Debt Service.

(6) Intermediate Lien Debt Service Coverage Ratio is calculated by dividing Net Pledged Revenues Available for Debt Service by Senior Bonds, DBW Loan, and Intermediate Bonds Debt Service.

(7) Intermediate Lien and Aggregate Debt Service Coverage ratios include the following:

- In fiscal year 2010, debt service was reduced \$9.5 million due to the release of funds from Series F, Series K, Series L and Series N bond reserves funds.

- In fiscal year 2012, \$0.6 million of Series M unsent bond proceeds were applied to the debt service payment.

**Port of Oakland**  
(A Component Unit of the City of Oakland)  
Ratios of Debt Service  
Last Ten Fiscal Years  
(dollar amounts in thousands)

	2007	2008	2009	2010	2011	2012	2013	2014	(3)	2015	2016
<b>Debt Service</b>											
Senior Revenue Bonds (1)											
Aviation	\$ 9,845	\$ 5,997	\$ 5,437	\$ 14,887	\$ 12,551	\$ 13,206	\$ 13,014	\$ 6,550	\$	5,718	\$ 4,988
Maritime	67,515	61,159	59,021	67,682	54,085	55,960	55,242	41,517		44,426	43,201
Commercial Real Estate	5,289	4,074	7	1,649	5	7	7	2		2	2
Total Senior Revenue Bonds Debt Service	82,649	71,230	64,465	84,218	66,641	69,173	68,263	48,069		50,146	48,191
Department of Boating & Waterways											
Commercial Real Estate	-	457	457	457	457	457	457	457		457	457
Intermediate Revenue Bonds											
Aviation	-	3,618	7,610	7,617	8,867	12,033	12,018	13,304		12,924	18,844
Maritime	-	8,886	20,985	20,486	29,128	25,271	25,289	34,568		32,894	28,018
Commercial Real Estate	-	267	527	525	552	1,241	1,241	1,792		1,771	3,367
Total Intermediate Revenue Bonds Debt Service	-	12,771	29,122	28,628	38,547	38,545	38,548	49,664		47,589	50,229
Commercial Paper (2)											
Aviation	-	1,793	361	90	68	40	41	189		23	42
Maritime	-	4,023	896	218	165	116	115	897		3,069	4,103
Commercial Real Estate	-	-	-	-	-	3	-	-		-	-
Total Commercial Paper Debt Service	-	5,816	1,257	308	233	159	156	1,086		3,092	4,145
Debt Service by Division											
Aviation	9,845	11,408	13,408	22,594	21,486	25,279	25,073	20,043		18,665	23,874
Maritime	67,515	74,068	80,902	88,386	83,378	81,347	80,646	76,982		80,389	75,322
Commercial Real Estate	5,289	4,798	991	2,631	1,014	1,708	1,705	2,251		2,230	3,826
Total Debt Service	\$ 82,649	\$ 90,274	\$ 95,301	\$ 113,611	\$ 105,878	\$ 108,334	\$ 107,424	\$ 99,276	\$	\$ 101,284	\$ 103,022
<b>Aviation Debt Service per Enplaned Passenger</b>											
Enplaned passengers (in 000's)	7,267	6,802	4,956	4,778	4,688	4,826	4,973	4,950		5,374	5,812
Aviation Debt Service per Enplaned Passenger (not in 000's)	\$ 1.35	\$ 1.68	\$ 2.71	\$ 4.73	\$ 4.58	\$ 5.24	\$ 5.04	\$ 4.05	\$	\$ 3.47	\$ 4.11

Note:

(1) Senior Revenue Bond debt service is less capitalized interest.

(2) Includes principal payments of \$1 million, \$3 million and \$4 million, paid in FY 2014, FY 2015 and FY 2016 respectively.

(3) FY 2014 commercial paper debt service was reallocated to more accurately reflect the reduction of debt on specifically identified projects.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Outstanding Debt by Debt Type**  
**Last Ten Fiscal Years**  
**(dollar amounts in thousands)**

<b>Fiscal Year</b>		<b>Senior Bonds</b>		<b>Intermediate Bonds</b>		<b>Department of Boating &amp; Waterways</b>		<b>Commercial Paper</b>		<b>Total</b>
2007	\$	1,370,072	\$	-	\$	6,473	\$	191,893	\$	1,568,438
2008		962,822		503,090		6,307		78,540		1,550,759
2009		935,672		498,585		6,133		81,440		1,521,830
2010		856,000		494,390		5,952		89,440		1,445,782
2011		834,230		479,850		5,762		87,268		1,407,110
2012	(1)	803,761		478,977		5,564		87,268		1,375,570
2013		762,025		460,681		5,357		78,398		1,306,461
2014		745,382		430,345		5,140		77,398		1,258,265
2015		724,566		400,899		4,914		74,398		1,204,777
2016		705,315		367,607		4,678		84,586		1,162,186

Note:

(1) Starting in fiscal year 2012, amounts include bond discount/premium.

**Port of Oakland**  
 (A Component Unit of the City of Oakland)  
**Demographic and Economic Statistics for the City of Oakland**  
**Last Ten Calendar Years**

<b>Year</b>	<b>Population</b>	<b>Personal Income (\$000s)</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>School Enrollment</b>	<b>Unemployment Rate (%)</b>
2007	415,492	\$ 9,114,233	\$ 21,936	33.3	39,802	7.4
2008	420,183	10,554,157	25,118	36.1	39,705	9.6
2009	425,068	11,182,689	26,308	36.7	38,826	17.1
2010	390,757	10,607,099	27,145	37.1	38,450	17.2
2011	392,333	11,107,340	28,311	36.3	38,540	16.3
2012	394,832	11,281,140	28,572	36.2	37,742	14.3
2013	399,699	12,402,660	31,030	36.6	36,180	11.3
2014	405,703	13,154,920	32,425	36.4	37,040	9.0
2015	419,539 <sup>(1)</sup>	14,100,286	33,609	36.2	37,147	5.7
2016	422,856	14,625,320	34,587	36.2	37,075	5.8

## Source:

Population - State of California Department of Finance

Per Capita Income and Median Age - DemographicsNow.com (2006-2013), American Community Survey (2014-2016)

School Enrollment - Oakland Unified School District

Unemployment Rate - State of California Employment Development Department

## Note:

(1) 2015 population is updated with newly available data from the California Department of Finance, personal income is also updated accordingly.

**Port of Oakland**  
**(A Component Unit of the City of Oakland)**  
**Principal Employers in the City of Oakland - FY 2016 vs FY 2006**

<b>Employer</b>	<b>2016</b>			<b>2006(1)</b>		
	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total Employment</b>	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total Employment</b>
Kaiser Foundation Hospitals/Permanente Medical Center	12,154	1	6.06%	N/A		
Oakland Unified School District	5,080	2	2.53%	8,000	2	4.31%
County of Alameda	4,490	3	2.24%	9,740	1	5.25%
City of Oakland	3,500	4	1.75%	4,290	5	2.31%
Bay Area Rapid Transit	3,288	5	1.64%	2,800	6	1.51%
UCSF Children's Hospital Oakland	2,675	6	1.33%	N/A		
Alameda County Health System	2,300	7	1.15%	N/A		
Sutter Hospitals, Medical Foundation, & Support Services	2,257	8	1.13%	N/A		
Southwest Airlines	2,256	9	1.13%	N/A		
University of California	1,753	10	0.87%	N/A		
United States Postal Service	N/A			N/A		
Kaiser Permanente Medical Center	N/A			5,450	3	2.94%
Kaiser Foundation Hospitals	N/A			4,340	4	2.34%
Federal Express	N/A			2,790	7	1.50%
Alta-Bates Medical Center	N/A			2,620	8	1.41%
Kaiser Foundation Health Plan	N/A			2,590	9	1.40%
Summit Medical Center	N/A			2,230	10	1.20%
Estimated total employment	200,500			185,400		

## Source:

2006 Number of Employees - Economic Development Alliance for Business and Alameda County Largest Employers

2006 Estimated total employment - www.demographicsNow.com

2016 Number of Employees - City of Oakland, Department of Economic and Workforce Development and County of Alameda

2016 Estimated total employment - State of California Development Department

## Note:

(1) Data pertaining to principal employers for 2007 was not readily available. As such, we used 2006 data as our base year.

**Port of Oakland**  
(A Component Unit of the City of Oakland)  
Actual Employee Count by Division  
Last Ten Fiscal Years

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Aviation	289	315	307	238	228	242	233	236	222	232
Maritime	65	77	78	63	61	63	69	69	68	20 (1)
Commercial Real Estate	7	8	7	8	8	7	7	8	8	8
Engineering & Environmental	108	110	67	49	48	50	50	54	57	102 (1)
Financial Services & Administration (2)	83	79	63	55	53	53	59	54	56	58
Others	77	60	51	35	39	36	38	37	41	39
Total	629	649	573	448	437	451	456	458	452	459

Source:

Port of Oakland Records

Note:

(1) In fiscal year 2016, Harbor Facilities was moved to the Engineering Division from the Maritime Division.

(2) Financial Services &amp; Administration Division consist of Human Resources, Information Technology, and Financial Services.

**Port of Oakland**  
(A Component Unit of the City of Oakland)  
Capital Assets Information  
Last Ten Fiscal Years

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Aviation facilities										
Paved airport runways	4	4	4	4	4	4	4	4	4	4
Total length of runways (in feet)	25,038	25,038	25,038	25,038	25,038	25,038	25,038	25,038	25,038	25,038
Area of airport (in acres)	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600	2,600
Parking stalls (1)	6,864	7,868	6,103	6,315	6,950	6,516	6,516	6,621	6,878	6,898
Harbor facilities										
Miles of waterfront	19	19	19	19	19	19	19	19	19	19
Berthing length at wharves (in feet)	23,063	23,063	23,233	23,233	23,233	23,233	23,233	23,233	23,233	23,233
Maritime terminal area (in acres)	786	786	786	786	779	779	779	779	779	779
Commercial Real Estate										
Owned acreage	876	874	874	874	874	865	837	837	837	837
Parking stalls	2,004	1,479	1,429	1,429	1,429	1,429	1,429	1,429	1,429	1,429

Source:

Port of Oakland Records

Note:

(1) Available parking stalls are increased or decreased due to market demand or to make space available for construction projects.

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**PORT OF OAKLAND, CALIFORNIA  
(A Component Unit of the City of Oakland)**

Single Audit, Passenger Facility Charges, and  
Customer Facilities Charges Reports

Year Ended June 30, 2016



Certified  
Public  
Accountants



**PORT OF OAKLAND, CALIFORNIA**  
**(A Component Unit of the City of Oakland)**  
**SINGLE AUDIT, PASSENGER FACILITY CHARGES, AND**  
**CUSTOMER FACILITY CHARGES REPORTS**  
**YEAR ENDED JUNE 30, 2016**

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**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

Board of Port Commissioners  
of the City of Oakland, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Port of Oakland (Port), a component unit of the City of Oakland, California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Port's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the Port's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control that we consider to be a significant deficiency, which is described in the accompanying federal awards schedule of findings and questioned costs as item 2016-001.

**Compliance and Other Matters**


As part of obtaining reasonable assurance about whether the Port's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Port of Oakland's Response to Findings**

The Port's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Port's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port's internal control and compliance. Accordingly, the communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Oakland, California  
November 29, 2016



**Independent Auditor's Report on Compliance for the Major Federal Program:  
Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of  
Federal Awards Required by the Uniform Guidance**

Board of Port Commissioners  
of the City of Oakland, California

**Report on Compliance for the Major Federal Program**

We have audited the Port of Oakland's (Port), a component unit of the City of Oakland, California, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Port's major federal program for the year ended June 30, 2016. The Port's major federal program is identified in the summary of auditor's results section of the accompanying federal awards schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Port's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Port's compliance.

***Opinion on the Major Federal Program***

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2016.

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying federal awards schedule of findings and questioned costs as items 2016-002. Our opinion on the major federal program is not modified with respect to this matter.

The Port's responses to the noncompliance findings identified in our audit are described in the accompanying federal awards schedule of findings and questioned costs. The Port's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## Report on Internal Control Over Compliance

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Port's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program, the passenger facility charges program, or the customer facility charges program will not be prevented, or detected and corrected, on a timely basis. *A Significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program, the passenger facility charges program, or the customer facility charges program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***Report on Schedule of Federal Awards Required by the Uniform Guidance***

We have audited the financial statements of the Port as of and for the year ended June 30, 2016, and have issued our report thereon dated November 29, 2016 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Macias Gini & O'Connell LLP*

Oakland, California  
January 20, 2017

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

<b>Federal Agency, Pass Through Agency and Program Description</b>	<b>Program CFDA Number</b>	<b>Expenditures</b>	<b>Amount Passed to Subrecipients</b>
U.S. Department of Transportation:			
Direct Programs:			
Federal Aviation Administration - Airport Improvement Program (AIP)			
AIP-61	20.106	\$ 27,592	\$ -
AIP-63	20.106	561,524	-
AIP-67	20.106	100,439	-
AIP-68	20.106	15,230,574	-
AIP-70	20.106	81,170	-
AIP-71	20.106	688,603	-
AIP-72	20.106	594,758	-
Subtotal Airport Improvement Program		17,284,660	-
Surface Transportation Discretionary Grants for Capital Investments - Transportation Investment Generating Economic Recovery (TIGER) Grants American Recovery and Reinvestment Act (ARRA) (DTMA-91-G-2012-0005)	20.932	4,132,808	-
Total U.S. Department of Transportation		21,417,468	-
U.S. Department of Homeland Security:			
Direct Program:			
Port Security Grant Program (PSGP)			
FY 2013 (Round 13) (EMW-2013-PU-00195)	97.056	431,066	-
FY 2014 (Round 14) (EMW-2014-PU-00203)	97.056	195,471	-
Subtotal Port Security Grant - Direct		626,538	-
Pass-Through Marine Exchange of the San Francisco Bay Region:			
Port Security Grant Program (PSGP)			
FY 2010 (Round 10) (2010-PU-T0-K050) (see note 2)	97.056	632,041	589,043
Total U.S. Department of Homeland Security		1,258,579	589,043
<b>TOTAL EXPENDITURE OF FEDERAL AWARDS</b>		<b>\$ 22,676,047</b>	<b>\$ 589,043</b>

The accompanying notes are an integral part of this schedule.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

**(1) General**

The schedule of expenditures of federal awards (SEFA) presents the activity of the federal award programs of the Port of Oakland, California (Port). The reporting entity is defined in Note 1 of the Port's financial statements. Because the SEFA presents only the federal award activity of the Port, it is not intended to and does not present the financial position, changes in financial position or the cash flows of the Port. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

**(2) Basis of Accounting**

The SEFA is presented using the accrual basis of accounting as described in Note 2 to the Port's basic financial statements. Expenditures of federal awards are reported in the Port's basic financial statements as expenses for non-operating grant expense and as additions to capital assets for related capital expenditures. Payments to subrecipients are included in the SEFA when the disbursement is made by the Port to the subrecipient. The Port passed through \$589,043 of the Port Security Grant to the City of Oakland as a subrecipient during the year ended June 30, 2016.

The Port has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**(3) Relationship to Federal Financial Reports**

Amounts reported in the SEFA agree to or can be reconciled with the amounts reported in the related federal financial reports.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**FEDERAL AWARDS SCHEDULE OF AND FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**Section I      Summary of Auditors' Results**

*Financial Statements*

Type of report the auditor issued on whether the financial statements were prepared in accordance with accounting principles generally accepted in the United States of America	Unmodified
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Internal control over financial reporting:

- |   |     |
|---|-----|
| ◆ Material weakness(es) identified?       | No  |
| ◆ Significant deficiency(ies) identified? | Yes |

Noncompliance material to the basic financial statements noted?	No
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*Federal Awards*

Internal control over major federal program:

- |   |               |
|---|---------------|
| ◆ Material weakness(es) identified?       | No            |
| ◆ Significant deficiency(ies) identified? | None reported |

Type of auditors' report issued on compliance for major federal programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	Yes
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Identification of major federal program:	CFDA No. 20.106 – U.S. Department of Transportation – Airport Improvement Program
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Dollar threshold used to distinguish between type A and type B programs:	\$750,000
--	-----------

Auditee qualified as a low-risk auditee?	Yes
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**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**FEDERAL AWARDS SCHEDULE OF AND FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**Section II      Financial Statement Findings**

**Finding 2016-001      Schedule of Expenditures of Federal Awards Completeness (Significant Deficiency)**

***Criteria:***

The Uniform Guidance requires the Port to prepare a schedule showing total expenditures for the fiscal year for each federal program. Further, it requires that the auditor identify and audit all high-risk type A federal programs. The Port's type A federal programs are those with current year expenditures exceeding \$750,000.

***Condition Identified and Perspective:***

The Port omitted the following expenditures from its schedule of expenditures of federal awards (SEFA):

- \$589,043 of expenditures related to its Port Security Grant program (CFDA 97.056). These expenditures were passed through to the City of Oakland as a subrecipient.

***Asserted Cause and/or Effect:***

Internal controls over preparation of the SEFA are not suitably designed to prevent inaccurate or complete preparation of the schedule.

The Port's SEFA serves as the basis for determining the number of major programs required to be audited for a fiscal year. Inaccuracy in the SEFA may result in high-risk type A programs not being identified for testing and type B programs not being subjected to the required audit risk assessment.

***Recommendation:***

The Port should improve its process for reviewing expenditures reported in the SEFA by developing procedures to ensure that all federal grants are identified.

***View of Responsible Officials:***

The Port does not regularly share or pass through grants to other agencies, instances of such are infrequent and isolated, therefore the Port has not established extensive procedures for tracking such activity. However, the Port will establish new general ledger accounts to separately track any future subgrantee activity so that it can be easily identified and accurately reported.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**FEDERAL AWARDS SCHEDULE OF AND FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**Section III Federal Award Findings and Questioned Costs**

**Finding 2016-002 Reporting - Airport Improvement Program**

Federal Program Title(s):	Airport Improvement Program
Federal Catalog Number(s):	20.106
Federal Agency:	U.S. Department of Transportation
Pass-Through Entity:	N/A
Federal Award Number(s) and Year(s):	Various multi-year award numbers for FY 2015-16
Category of Finding:	Fiscal Reporting

***Criteria:***

The Airport Improvement Program Handbook, section 5-53, states:

“The sponsor must submit an annual report of their grant financial activity using Standard Form 425, Federal Financial Report, or equivalent... The sponsor must submit each Standard Form 425 no less [sic] than 90 working days after the end of each fiscal year...”

***Condition Identified and Perspective:***

Federal Financial Report (SF-425) for the fiscal year ended September 30, 2015 was due by December 31, 2015 but not filed with the U.S. Department of Transportation until September 27, 2016.

***Asserted Cause and/or Effect:***

Internal controls are not adequate to ensure the completion and timely submittal of the required report on a timely basis.

***Questioned Costs:***

None

***Recommendation:***

We recommend that the Port meet all mandated reporting requirements and deadlines.

***Views of Responsible Officials:***

The Port is aware of the Standard Form 425 and completes this form timely for other Federal grant programs. The Port was advised by previous AIP program managers that this form was not necessary for the AIP program and therefore did not submit this form. Through discussions with current AIP program personnel, the Port became aware that this form is required. The Port immediately submitted the form to the FAA on September 27, 2016 and will do so on a timely basis going forward.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**STATUS OF PRIOR YEAR FINDINGS AND**  
**QUESTIONED COSTS FOR FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2016**

<u><i>Finding No.</i></u>	<u><i>Description</i></u>	<u><i>Status</i></u>
2014-001	Airport Improvement Program – Activities Allowed or Unallowed	In Process

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**Independent Auditor's Report on Compliance with Applicable Requirements of  
the Passenger Facility Charge Program, Internal Control over Compliance in  
Accordance with the *Passenger Facility Charge Audit Guide for Public Agencies* and  
Schedule of Passenger Facility Cash Receipts, Cash Disbursements, and Interest by Quarter**

Board of Port Commissioners  
of the City of Oakland, California

**Compliance**

We have audited the Port of Oakland's (Port), a component unit of the City of Oakland, California, compliance with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to its passenger facility charge program for the year ended June 30, 2016.

***Management's Responsibility***

Compliance with the requirements referred to above is the responsibility of the Port's management.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the Port's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the PFC Guide. Those standards and the PFC Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port's compliance with those requirements.

***Opinion***

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that are applicable to its passenger facility charge program for the year ended June 30, 2016.

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the PFC Guide and which are described in the accompanying passenger facility charge schedule of findings and questioned costs as items 2016-003. Our opinion on the passenger facility charge program is not modified with respect to this matter.

The Port's responses to the noncompliance findings identified in our audit are described in the accompanying passenger facility charge schedule of findings and questioned costs. The Port's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

## Internal Control over Compliance

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Port's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the PFC Guide. Accordingly, this report is not suitable for any other purpose.

### **Schedule of Passenger Facility Charge Cash Receipts, Cash Disbursements, and Interest by Quarter**

We have audited the financial statements of the Port as of and for the year ended June 30, 2016, and have issued our report thereon dated November 29, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Port as a whole. The accompanying Schedule of Passenger Facility Charge Cash Receipts, Cash Disbursements, and Interest by Quarter (PFC Schedule) is presented for purposes of additional analysis as required by the PFC Guide, issued by the FAA, and is not a required part of the Port's financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the PFC Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Macias Gini & O'Connell LLP*

Oakland, California

January 20, 2017

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**SCHEDULE OF PASSENGER FACILITY CASH RECEIPTS, CASH DISBURSEMENTS  
AND INTEREST BY QUARTER**  
**YEAR ENDED JUNE 30, 2016**

	<b>1st Quarter</b>	<b>2nd Quarter</b>	<b>3rd Quarter</b>	<b>4th Quarter</b>	<b>Total</b>
Cash receipts	\$ 5,876,262	\$ 5,292,384	\$ 5,395,621	\$ 6,186,323	\$ 22,750,590
Cash disbursements	(2,289,581)	(8,333,765)	(6,736,726)	(4,689,464)	(22,049,536)
Interest income	3,673	2,726	3,457	3,226	13,082
Excess of cash receipts and interest income over cash disbursements					714,136
Unrealized gains on investments					2,480
Unexpended cash balance at June 30, 2015					2,434,826
Unexpended cash balance at June 30, 2016					<u>\$ 3,151,442</u>

The accompanying notes are an integral part of this schedule.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**NOTES TO SCHEDULE OF PASSENGER FACILITY CASH RECEIPTS,  
CASH DISBURSEMENTS AND INTEREST BY QUARTER  
YEAR ENDED JUNE 30, 2016**

**(1) General**

The Port of Oakland, California (Port), as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (Act), as amended, imposes a Passenger Facility Charge (PFC) of \$4.50 per enplaning passenger at the Oakland International Airport. Under the Act, air carriers are responsible for the collection of PFC charges and are required to remit PFC revenues to the Port in the following month after they are recorded by the air carrier. The Port has two approved and active applications with the FAA. The current authority to impose PFCs is estimated to end February 1, 2035.

PFC revenues, including any interest earned thereon, are restricted solely to finance allowable costs of new airport planning and development projects as defined and authorized by the FAA. PFC revenues may be used to pay debt service and related expenditures associated with FAA approved projects, and the Port has received FAA approval to pay certain debt service if debt proceeds are used for qualifying projects.

**(2) Significant Accounting Policies**

**Basis of accounting**

The accompanying schedule of passenger facility cash receipts, cash disbursements and interest by quarter (PFC Schedule) is presented using the cash basis. Receipts represent amounts received from air carriers' enplaning passenger ticket sales. Disbursements represent Port payments for projects that have been authorized by the FAA under the Act.

**Basis for quarterly reporting**

The Port prepares quarterly reports, which are submitted to the FAA and to the airlines, of PFC amounts received and expended on the cash basis. The Port reimburses PFC disbursements by transferring cash to the Port Revenue Fund from the Restricted PFC Fund.

**(3) Cash, Investments and Deposits**

The City of Oakland (City) Charter requires all revenues, including PFC revenue, to be deposited with the City Treasurer. These funds are pooled in a citywide pool and invested by the City Treasurer pursuant to the investment policy adopted by the City Council and guidelines specified in the California Government Code. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily PFC balance on deposits and the earnings of the investments. PFC cash, investments and deposits held by the City totaled \$3,151,442 at June 30, 2016, which includes an allocation of unrealized gain on investments of \$2,480 at June 30, 2016.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**PASSENGER FACILITY CHARGE PROGRAM SCHEDULE OF AND FINDINGS AND**  
**QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**Section I      Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued on the financial statements of the Port:	Unmodified
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Internal control over financial reporting:

◆ Material weakness(es) identified?	No
-------------------------------------	----

◆ Significant deficiency(ies) identified?	Yes
---	-----

Noncompliance material to the basic financial statements noted?	No
---	----

*Passenger Facility Charges*

Internal control over the PFC program:

◆ Material weakness(es) identified?	No
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◆ Significant deficiencies identified that are not considered to be material weaknesses?	None reported
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Type of auditors' report issued on compliance for PFC program	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with the PFC Guide	Yes
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**Section II      Financial Statement Findings**

See Finding 2016-001.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**PASSENGER FACILITY CHARGE PROGRAM SCHEDULE OF AND FINDINGS AND**  
**QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2016**

**Section III      Passenger Facility Charges Findings and Questioned Costs**

**Finding 2016-003      Reporting - Passenger Facility Charges Program**

***Criteria:***

The Passenger Facility Charge Audit Guide for Public Agencies, revised September 2000, states that the public agency's quarterly report "must be provided on or before the last day of the calendar month following the calendar quarter or other period agreed by the public agency and collecting carrier."

***Condition Identified and Perspective:***

During our audit we noted that the report for the quarter ended June 30, 2016, was due by July 31, 2016 but not submitted until August 16, 2016.

***Questioned Costs:***

None

***Asserted Cause and/or Effect:***

Internal controls are not adequate to ensure the completion and submission of the required reports and communications on a timely basis.

***Recommendation:***

We recommend that the Port meet the mandated reporting deadlines.

***Views of Responsible Officials:***

Port staff prepared and submitted airline cash receipts collections on a timely basis, however the Port had not received the Port's share of interest earned from the City of Oakland (City) in time to include this information with the report. Upon receiving the final interest earned amount from the City, Port staff updated the reporting. When Port staff updated the reporting, the date stamp on the system updated to the current date and overrode the initial reporting date. Port staff contacted the FAA and confirmed that the system does not keep an audit trail and will only show the last modified date. The Port is dependent upon the City to provide interest earned information because per the City Charter, the City holds all excess cash, including PFC deposits, with the City treasury. The Port will discuss with the FAA proper reporting procedures and support documentation in the event the Port does not receive interest earned information timely from the City. Additionally, the Port will discuss with the City what steps can be taken to ensure interest earned information is calculated and communicated on a timely.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS FOR  
THE PASSENGER FACILITY CHARGE PROGRAM  
YEAR ENDED JUNE 30, 2016

<u><i>Finding No.</i></u>	<u><i>Description</i></u>	<u><i>Status</i></u>
2015-001	Passenger Facility Charge – Fiscal Reporting	Repeated - see Finding 2016-003



**Independent Auditor's Report on Compliance with Applicable Requirements of the  
Customer Facility Charge Program, Report on Internal Control over Compliance and  
Schedule of Customer Facility Cash Receipts and Cash Disbursements**

Board of Port Commissioners  
of the City of Oakland, California

**Compliance**

We have audited the Port of Oakland's (Port), a component unit of the City of Oakland, California compliance with requirements described in the *California Civil Code Section 1936, as amended by Senate Bill (SB) 1192 and Assembly Bill (AB) 359 (CFC Code)*, for its customer facility charge program for the year ended June 30, 2016.

***Management's Responsibility***

Compliance with the requirements referred to above is the responsibility of the Port's management.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the Port's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the CFC Code. Those standards and the CFC Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about the Port's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Port's compliance with those requirements.

***Opinion***

In our opinion, the Port complied, in all material respects, with the types of compliance requirements referred to above that are applicable to its customer facility charge program for the year ended June 30, 2016.

## Internal Control over Compliance

Management of the Port is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Port's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Port's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the CFC Code. Accordingly, this report is not suitable for any other purpose.

## Schedule of Customer Facility Cash Receipts and Cash Disbursements

We have audited the financial statements of the Port as of and for the year ended June 30, 2016, and have issued our report thereon dated November 29, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements of the Port as a whole. The accompanying Schedule of Customer Facility Cash Receipts and Cash Disbursements (CFC Schedule) is presented for purposes of additional analysis as required by the CFC Code, and is not a required part of the Port's financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the CFC Schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.



Oakland, California  
January 20, 2017

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**SCHEDULE OF CUSTOMER FACILITY**  
**CASH RECEIPTS AND CASH DISBURSEMENTS**  
**YEAR ENDED JUNE 30, 2016**

Cash receipts:	
Customer facility charges	\$ 6,192,524
Net investment income	<u>31,635</u>
Total cash receipts	<u>6,224,159</u>
 Cash disbursements:	
Contractual services - shuttle bus operations	<u>4,210,419</u>
Total cash disbursements	<u>4,210,419</u>
 Excess of cash receipts over cash disbursements	2,013,740
 Unexpended cash at June 30, 2015	<u>6,717,306</u>
 Unexpended cash at June 30, 2016	<u><u>\$ 8,731,046</u></u>

The accompanying notes are an integral part of this schedule.

**PORT OF OAKLAND, CALIFORNIA**  
(A Component Unit of the City of Oakland)  
**NOTES TO SCHEDULE OF CUSTOMER FACILITY CHARGE**  
**CASH RECEIPTS AND CASH DISBURSEMENTS**  
**YEAR ENDED JUNE 30, 2016**

**(1) General**

The Port of Oakland, California (Port), as authorized by California Civil Code Section 1936, amended by Senate Bill 1192 and Assembly Bill 359 (CFC Code) imposes a Customer Facility Charge (CFC) of \$10 per rental contract on rental car companies operating at Oakland International Airport and \$8 per rental contract on rental car companies operating off the airport property, but utilizing the common-use shuttle bus service to transport customers. Under the CFC Code, rental car companies are responsible for the collection of CFC charges from renters and are required to remit CFC revenues to the Port.

CFC revenues, including any interest earned thereon, are restricted solely to finance, design and construct a consolidated airport rental car facility; to finance, design, construct and operate common-use transportation systems that move passengers between airport terminals and those consolidated car rental facilities; to acquire vehicles for use in that system; and to finance, design and construct terminal modifications solely to accommodate and provide customer access to common-use transportation systems.

**(2) Basis of accounting**

The accompanying schedule of customer facility charge cash receipts and cash disbursements is presented using the cash basis. Receipts represent amounts received from rental car companies based on their collections from customers. Disbursements represent Port's reimbursement from the CFC cash account for projects that are eligible under the CFC Code.

**(3) Cash, Investments and Deposits**

The City of Oakland (City) Charter requires all revenues, including CFC revenue, to be deposited with the City Treasurer. These funds are pooled in a citywide pool and invested by the City Treasurer pursuant to the investment policy adopted by the City Council and guidelines specified in the California Government Code. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily CFC balance on deposits and the earnings of the investments. CFC cash, investments and deposits held by the City totaled \$8,731,046 at June 30, 2016. This amount is expected to be used for expansion of the consolidated rental car facility, including rebuilding of access driveways and general infrastructure, demolition of a building and paving of an adjacent property so it can be incorporated into the consolidated rental car facility, and site security enhancements.

During fiscal year 2016, the Port incurred and paid consultant fees of \$33,828 for various CFC audit periods from the Port's general operating account. The Port's general operating account was reimbursed from the CFC cash account in July 2016.



**CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2016**

**Item No. 2016-001      Schedule of Expenditures of Federal Awards Completeness (Significant Deficiency)**

**Corrective Action:**

The Port has established new general ledger accounts to separately track any future subgrantee activity so that it can be easily identified and accurately reported.

Completion Date: February 1, 2017

Contact person(s) responsible for corrective action:  
Angelica Avalos, Financial Services Division, Port of Oakland

**Item No. 2016-002      Reporting - Airport Improvement Program**

Federal Program Title(s):	Airport Improvement Program
Federal Catalog Number(s):	20.106
Federal Agency:	U.S. Department of Transportation
Pass-Through Entity:	N/A
Federal Award Number(s) and Year(s):	Various multi-year award numbers for FY 2015-16
Category of Finding:	Fiscal Reporting

**Corrective Action:**

The Port has added this required form for AIP grants to its schedule of required reports. Calendar reminders have been added in order to ensure timely submittal going forward.

Completion Date: September 27, 2016

Contact person(s) responsible for corrective action:  
Angelica Avalos, Financial Services Division, Port of Oakland